DOCUMENT RESUME

ED 246 180 CE 038 367

AUTHOR Devanna, Mary Anne; And Others
TITLE Human Resources Management: Issues for the 1980s.
INSTITUTION Columbia Univ., New York, NY. Center for Research in Career Development.
PUB DATE 83
NOTE 82p.
PUB TYPE Information Analyses (070) -- Viewpoints (120) -- Collected Works - General (020)

EDRS PRICE MF01/PC04 Plus Postage.
DESCRIPTORS Adults; *Business Administration; *Career Development; Career Planning; Employment Patterns; Employment Projections; *Futures (of Society); *Human Resources; Job Performance; Managerial Occupations; Models; Personnel Evaluation; *Personnel Management; Personnel Needs; Planning; Professional Personnel

ABSTRACT

This collection of five articles examines the role and influence of human resources management (HRM) in strategic planning in major American companies. The first article, "Human Resources Management: A Strategic Perspective," by Mary Anne Devanna, Charles Fombrun, and Noel Tichy, describes how to conduct a human resource management audit to assess the HRM function's status in the company as a whole. In "Human Resources Management: Link to Strategy and Structure," Devanna, Fombrun, and Tichy provide a series of analytical frameworks to help managers think about the role and structure of human resources in their own organization. Lynn Warren discusses "The Role of Human Resources in Strategic Planning." The background to her article is provided by Devanna, Fombrun, Tichy, and E. Kirby Warren in "Results of Human Resources Management Study," based on a survey of major companies. They indicate that the influence of HRM in strategic planning is marginal, but that it should be made much stronger. Finally, "Managing the Middle: Implications for Human Resources Managers" by Devanna and E. Kirby Warren talks of the challenges that organizations face in the near future, especially in terms of managing the growing numbers of technical professional members of the work force. (KC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED246180

HUMAN RESOURCES MANAGEMENT:

ISSUES FOR THE 1980s

Mary Anne Devanna, Ph.D.
Charles Fombrun, Ph.D.
Noel Tichy, Ph.D.
Lynn Warren
E. Kirby Warren, Ph.D.

Center for Research in Career Development
Columbia Business School
New York, N.Y. 10027

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

C Gillis

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

Copyright 1983

CE 038367

TABLE OF CONTENTS

FORWARD.....i

CHAPTER

1 HUMAN RESOURCES MANAGEMENT: A STRATEGIC PERSPECTIVE.....1
by Mary Anne Devanna, Charles Fombrun and Noel Tichy

2 HUMAN RESOURCES MANAGEMENT: LINK TO STRATEGY AND STRUCTURE.....24
by Mary Anne Devanna, Charles Fombrun and Noel Tichy

3 THE ROLE OF HUMAN RESOURCES IN STRATEGIC PLANNING.....44
by Lynn Warren

RESULTS OF HUMAN RESOURCES MANAGEMENT STUDY.....56
by Mary Anne Devanna, Charles Fombrun Noel Tichy, and E. Kirby Warren

4 MANAGING THE MIDDLE: IMPLICATIONS FOR HUMAN RESOURCES MANAGERS.....67
by Mary Anne Devanna and E. Kirby Warren

FORWARD

This series of articles represents a stream of research that began at the Center for Research in Career Development in 1977. The initial project which resulted in much of the conceptual material around human resource management and the links to strategic planning was conducted at Exxon Research and Engineering in Florham Park, New Jersey. The research team which consisted of Mary Anne Devanna, Charles Fombrun and Noel Tichy enjoyed the support and encouragement of Burton H. Meltzer who was the Manager of the Employee Relations Division at Exxon. A major share of the credit for the success of the project belongs to him.

When Burt was transferred to another affiliate, Barbara Ruane played a critical role in insuring that the project would continue. She along with Robert Goree, who took Burt's place, gave their strong support to the project. The article on conducting a human resource audit flows directly out of our experiences at Exxon. The article containing the analytical frameworks also resulted from this project.

The Strategy Research Center then funded a study of the extent to which human resource management influences the formulation and implementation of strategy in major American companies. The results of this survey indicate that the influence was marginal but that the feeling was that it would be necessary to make those links much stronger in the future.

The final piece talks of the challenges that organizations face in the near future especially in terms of the growing numbers of technical professional members in the workforce.

This research program continues. A study has recently been completed on managing computer professionals in the workforce and a significant effort is being mounted through both of these research Centers to study entreprenuership in large complex organizations.

HUMAN RESOURCES MANAGEMENT:

A STRATEGIC PERSPECTIVE

Mary Anne Devanna

Charles Fombrun

Noel Tichy

It has become cliche' to talk about the increasing importance of personnel or human resource management. In 1970, Mason Haire stated:

> We are coming to a time when the management of human resources must take a more prominent place in the firm's decisions. The value and leverage of the resources is simply too great for the kind of reactive response to pressures which has characterized it in the past....As it stands today, the personnel function, or industrial relations, or whatever title is used, is typically not a major mover in the firm.... The reactive not the proactive tradition is strong in the personnel field.

Some generally agreed-upon factors account for the growing importance of human resource management:

1. Economic shifts. The 1970s brought the interacting problems of inflation, sluggish capital investment, and slim gains in productivity. These trends are expected to continue to put pressure on productivity, which was disastrously low from 1974 through 1979 (the rate of increase has been generally estimated at 0.9 percent a year). In addition, the economy continues to be increasingly service-oriented and thus increasingly labor-intensive.

2. Demographic shifts. In the 1980s, the post-World War II baby boom will hit the workforce. This is a well-educated group with high expectations about careers and job satisfaction. However, at the same time the workforce will be aging; changes in retirement laws have caused this phenomenon to occur even faster than it would have on the basis of demographics alone. These demographic shifts put pressure on the effective utilization of human resources. Although rapid industrial growth provided an outlet in the past for rising expectations and the increasing professionalism of the workforce, this will not be so for most organizations in the 1980s. For one thing, the workforce is becoming increasingly over-educated for jobs available: college graduates are now doing jobs that high school graduates would have performed a decade ago and, in many cases, MBAs are filling jobs that college graduates once filled. This, coupled with prospective employees' high expectations for meaningful work, is presenting organizations with a serious human resource problem.

3. Entitlement and regulation laws. Another factor having a profound impact on organizations is the regulatory environment, particularly in the areas of affirmative action and health and safety. The future may also bring a major impact from some form of corporate bill of rights. (The Privacy Act of 1974 was the first step in this direction.) Again, the human resources function takes center stage when such issues arise.

4. The increasing complexity and difficulties of management. The same forces that pressure the human resources function are, in part, responsible for making large corporations' general management increasingly complex and difficult. The selection, development, and compensation of managers will become a critical organizational concern in the 1980s.

Despite these demands for change, very little progress has been made. More and more major corporations are struggling with human resources problems, but few if any have created the strong proactive human resources function needed.

This article provides a set of action steps for organizations interested in upgrading their personnel or human resources function. Three areas are covered in depth:

- The state of the art in human resources management.
- Assessing a company's human resources management capability by means of the Human Resources Management Audit (HRMA).
- Guidelines for developing a human resources strategy.

State of the Art

Our assessment is presented in terms of Robert Anthony's three levels of management -- strategic, managerial, and operational.

The strategic level, which deals with policy formulation and overall goal setting, is mainly concerned with the long-term positioning of the organization in its environment. Critical questions addressed at the strategic level are: What is the core mission of the organization? What businesses should it be in? Given the organization's strengths and weaknesses in the projected environment, what should its strategy be?

The managerial level is concerned with the availability and allocation of resources to carry out the strategic plan. To be in the business specified at the strategic level, what

capital, information, and human resources does the company need? The time frame is medium-range, and the parameters are typically set by the strategic plan.

At the operational level, the day-to-day management of the organization is carried out -- ideally under the umbrella of the managerial plans. Thus annual budgets, staffing plans, production plans, and control systems should be directly linked to the medium-term managerial plans.

Figure 1 lists the human resources activities associated with the strategic, managerial, and operational levels. These represent only a subset of the principal human resources functions for illustrative purposes. For example, in the personnel selection/placement area, operational-level activities include the annual staffing and recruitment plans. The managerial level is more concerned with staff planning for the intermediate-range future. For instance, if the company is about to open two plants in different parts of the country, what kinds of people will be needed and how will they be found?

Strategic-level activities look to the long-term future. What kinds of people will be needed to manage and run the organization in the future? The implications of the long-run position are then traced back to guide current selection, placement, and training practices. If, for instance, a major oil company formulates a strategic business plan for major diversification by the year 2,000, then what kinds of people should it be recruiting now so that it will have employees capable of running the diversified company 20 years from now?

Another example of a strategic-level human resources practice is the attempt to match an individual's managerial style with key strategic characteristics of the business the individual will be managing. This is happening at GE. As stated in Business Week:

> At GE, an adherent of product portfolio analysis, strategic objectives for the company's wide-ranging products are defined as "grow," "defend," and "harvest" depending on the product life cycle. Now its general managers are being classified by personal style of orientation as "growers," "caretakers," and "undertakers" to match managerial type with the product's status.

It is probably not a great exaggeration to say that most human resources management functions are run at the operational level. To determine why, it is useful to look to

Figure 1

HUMAN RESOURCES FUNCTIONS

LEVEL	EMPLOYEE Selection/Placement	REWARDS (Pay and Benefits)	APPRAISAL	DEVELOPMENT	CAREER PLANNING
Strategic (Long-term)	1. Specify the characteristics of people needed to run business over long term. 2. Alter internal and external systems to reflect future.	1. Determine how workforce will be rewarded over the long term based on potential world conditions. 2. Link to long-term business strategy.	1. Determine what should be valued in long term. 2. Develop means to appraise future dimensions. 3. Make early identification of potential.	1. Plan developmental experiences for people running future business. 2. Set up systems with flexibility necessary to adjust to change.	1. Develop long-term system to manage individual and organizational needs for both flexibility and stability. 2. Link to business strategy.
Managerial (Medium-term)	1. Make longitudinal validation of selection criteria. 2. Develop recruitment marketing plan. 3. Develop new markets.	1. Set up five-year compensation plans for individuals. 2. Set up cafeteria benefits packages.	1. Set up validated systems that relate current conditions and future potential. 2. Set up assessment centers for development.	1. Establish general management development program. 2. Provide for organizational development. 3. Foster self-development.	1. Identify career paths. 2. Provide career development services. 3. Match individual with organization.
Operational (Short-term)	1. Make staffing plans. 2. Make recruitment plans. 3. Set up day-to-day monitoring systems.	1. Administer wage and salary program. 2. Administer benefits packages.	1. Set up annual or less frequent appraisal system. 2. Set up day-to-day control systems.	1. Provide for specific job skill training. 2. Provide on-the-job training.	1. Fit individuals to specific jobs. 2. Plan next career move.

the past. Most personnel departments grew from reactive responses to environmental problems. For example, the shift in the labor force from blue-collar to white-collar called for recruitment strategies more closely tied to the collegiate educational system. More recently, the push for equal employment opportunity and affirmative action has provoked a series of responses that include workshops for women and minorities, adjustments in pay, and more attention to the promotion of women and minorities. Few organizations have done significant work at the managerial level in any of the human resources functions.

The strategic issues noted in Figure 1 focus on longer-term, broad-policy, and systems issues. Only a handful of U.S. organizations approach human resources management in any systematic way at the strategic level. There are many reasons that this is true, including the following:

1. Because management doesn't perceive a need to address these issues, it proceeds with business strategic planning without much regard for the organization's human side.

2. The human resources function itself is generally not competent enough to be of much value at the strategic level. Different skills are involved in a move from operational to strategic activities.

3. The nature of human resources data is critically different from that of marketing, production, or financial functions, for example.

Human resources staff would be hard pressed to give an accounting of current human inventory, let alone to project human potential into the future. Thus line management, with some justification, prefers to make its own intuitive assumptions about the human resources variable at the strategic level. Edgar Schein summarizes the argument when he states that:

- Human resources must be meshed with other critical organizational resources, such as money, technology, space, and information.

- Human resources are not stable and passive but change over time and are, therefore, difficult to manage.

- Human resources are increasingly critical for organizational performance, especially in a post-industrial society.

. The complexity of large organizations requires a variety of people in the workforce; hence no one approach to human resources will work. A varied and flexible function is required.

The function should be concerned with the upper two levels of Figure 1. This is not to say that operational activities are to be ignored. On the contrary -- the upper two levels also need to be improved. However, the function should assume a broader perspective.

In summary, the human resources management function needs to move in the following directions:

1. Within subfunctions (selection, rewards, development, appraisal, and so forth), managerial- and strategic-level issues must be addressed and managed.

2. The interface with business strategic planning must be developed.

3. Integration of the total human resources function must take place. Historically, the subfunctions have been operating as relatively autonomous units with no real coordination. The future needs more sophisticated internal mechanisms that integrate the total function to maximize its impact on the organization.

Improving the Management of Human Resources

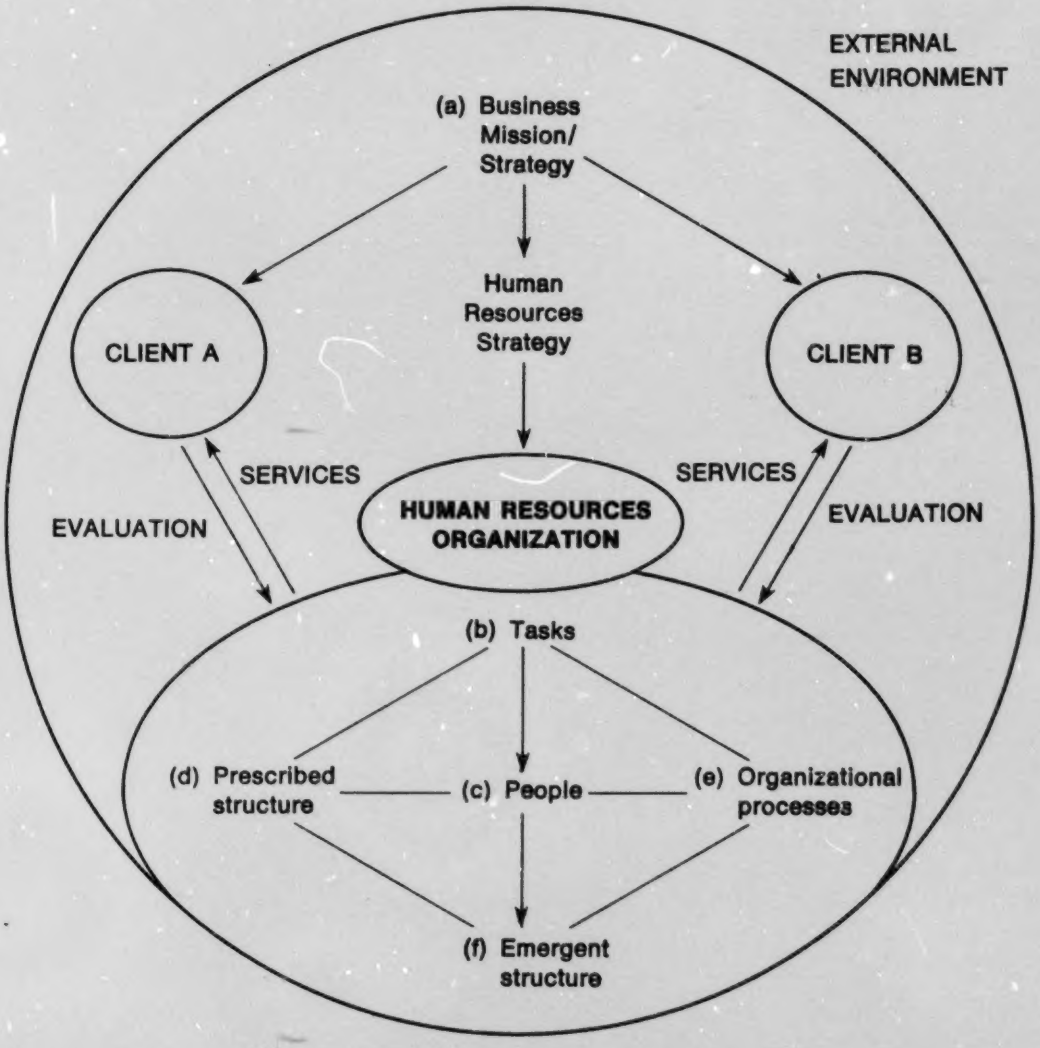
According to Richard Beckhard, any improvement process or change effort can be broken into three distinct segments: (1) a diagnosis of the present state, (2) a clear statement of the desired future state, and (3) a strategy for managing the transition from the present to the desired state.

A comprehensive assessment of the function's current status in the company as a whole is critical to the process. Data must be collected and analyzed and results drawn that suggest areas needing improvement. The Human Resources Management Audit (HRMA) serves this purpose.

The Human Resources Management Audit. The HRMA is designed on the premise that all organizations have a range of human resources service needs. The audit, therefore, takes an overall organizational perspective, focusing on the human resources function as a service unit of the organization delivering these services to an internal maketplace of client users. Figure 2 depicts the outlook that guides the HRMA.

Figure 2

THE HUMAN RESOURCES MANAGEMENT AUDIT



Description of Components

(a) *Business mission/strategy:* This includes the organization's reason for being, its basic approach to carrying out its mission, its strategy, and its criteria for effectiveness.

(b) *Tasks:* This refers to technology by which the organization's work is accomplished.

(c) *People:* This includes the characteristics of the members of the organization, their background, motivational patterns, managerial style, and so forth.

(d) *Prescribed structure:* This refers to the organization's explicitly designed social structure. It includes the organization of subunits, communication and authority networks, and structural mechanisms for integrating the organization.

(e) *Organizational processes:* These are the mechanisms (for example, communication, decision making, conflict management, control, and reward) that enable the formal organization to carry out the dynamics of work.

(f) *Emergent structure:* This includes the structures and processes that, while not planned or formally prescribed, inevitably emerge in the organization.

The human resources organization (represented by the two circles in the bottom portion of Figure 2) is embedded in the corporation. It interacts with client groups and is impacted by the corporation's business strategy as well as the world outside the corporation. The core of the framework for our study is represented by the items labeled (a) through (f), each of which represents a key organizational component. These components are defined briefly at the bottom of the figure.

Using these components, the human resources function itself is depicted as an organization in its own right. To do the tasks that must be done (selection, training, compensation, and so forth), people are hired and placed in a prescribed structure; then they make decisions, get into conflicts, and build their own emergent networks. The result is a distinct package of services that are provided to the clients. These clients, in turn, evaluate them and provide a mechanism for assessing their performance.

The key to the organization's effective functioning is not to be found in the characteristics of each component of the model in Figure 2, but in how well they fit together in a system. The more compatible -- or the better the "fit" among -- the people, tasks, structures, and processes, the more effective the human resources organization is likely to be in servicing its clients.

The HRMA uses this framework to try to answer such questions as these:

1. Are the mission and strategy of the human resources organization designed to match its environment -- both the external climate and the internal markets?

2. Does the design of the human resources organization enhance its ability to accomplish its strategy?

3. Are the kinds of people who conduct the human resources function good choices for the ongoing tasks, structures, and processes?

Conducting the HRMA. An HRMA is a major organizational intervention. It raises expectations that something will be done in response to its findings; therefore, careful consideration should be given to the organization's responsiveness to change. In particular, the following issues should be addressed:

1. Focus of audit. What unit is to be analyzed? In large corporations, the focus of the audit can be the total corporate personnel/human resources management function, or it can be the divisional or subsidiary level. Whatever the focus, the audit's boundaries must be specified from the start.

2. Resources. What resources are available for conducting the audit? Staff time as well as money are key resources that must be available. In addition, line management's involvement should be given particular consideration. Pressures for change could well result from an HRMA. If the audit is likely to uncover areas requiring major policy changes but senior line management is not ready or willing to address these issues, it might be appropriate to delay or abort the audit. Line management's commitment, understanding, and involvement with the HRMA is essential if it is to be of real value to the organization.

3. Diagnostic plan. The audit should begin with the development of a diagnostic work plan that specifically takes into account the data to be collected, the methods to be used in data collection, the individuals who will do the data collection, and the individuals responsible for analyzing the data. (See figure 3).

4. Managing the HRMA. There is a range of alternative methods for managing, overseeing, and carrying out an HRMA. The three basic methods are (1) having an external consultant manage it, (2) having internal staff and an external consultant manage it jointly, and (3) having line management join internal staff and an external consultant in managing it.

Each method has advantages and disadvantages. The external consultant format is both simplest and fastest to carry out. Potentially, however, it has the least impact since it is likely to generate the most defensiveness and may cause key staff members to dismiss the findings. The use of an external consultant with an internal staff is moderately simple to manage and can be conducted quickly. It has some of the same weaknesses as the outside consultant format -- that is, line management may not feel a proprietary interest in either the process or the results. The three-party format has the advantage of committing all parties to the process and the results. Although it has the greatest potential for bringing about needed change, it calls for the most complex organization and management and can easily run into problems. Managing the process effectively is probably the single most important requirement

Figure 3

DIAGNOSTIC PLAN

Components of Organizational Model	Specific Information Sought	Method of Data Collection
Environment	• How complex is the environment in terms of the number of domains and organizations with which the human resources staff must actively deal?	Documents/interviews
	• How stable is the environment?	Documents/interviews
	• How quickly is change occurring?	
	• How predictable are changes in the environment?	Documents/interviews
Mission/strategy/objectives	• What do key actors in the system perceive as the mission/strategy and objectives of the human resources department?	Questionnaire (open-ended written response)
	• How are possible system goals rated?	Questionnaire ratings
	• What are managers' concepts of strategy?	Interviews
	• How are strategic decisions actually made? (Use tracer decisions.)	Interviews/observation
People (management style)	• What are managers' styles? For example, would you categorize them as risk-taking, seat-of-pants, participative, open communication, flexible?	Interviews and observation
	• Do the key managers possess basic management competence?	
Prescribed structure	• What is the overall formal organization design?	Documents and interviews
	• What integration mechanisms exist, and how do they function?	Interviews and questionnaire ratings
Organizational processes	• What are the characteristics of communication—openness, distortion, time lag, quantity?	Interviews/observation
	• How is conflict handled in the organization? (norms and behavior)	Interviews/questionnaire ratings
	• How is decision making handled by the human resources staff—for example, what's the degree of participation? How flexible is the approach? and so forth.	Interviews/observation
Emergent structure	• Who speaks most frequently to whom to gather information, to exert or gain influence, and to fulfill affective needs?	Interviews using sociometric questions/observations
Output	• What is the organization's performance over time and in comparison to comparable systems?	Documents/interviews
	• What is the level of individual's satisfaction?	Questionnaires

of the HRMA because it will largely determine the audit's future impact on the organization.

A Case in Point

To demonstrate how an HRMA can be used, we present the results of a field study of a high technology corporation's human resources function. Questionnaires were collected from and interviews conducted with 78 of the 80 individuals who administer the human resources function (35 professionals, 45 support staff) and 42 of the 48 clients they named as their most frequent contacts. Both groups were asked to evaluate various aspects of human resources activities and to assess areas of agreement and disagreement over work priorities. Six company vice-presidents were also interviewed to deterimine their strategic outlook and to clarify their perceptions of the human resources function.

Analysis of the data from both internal and external sources made it increasingly clear that the human resources staff was an extremely high-performing unit. While minor improvements could be made, the internal organization was quite efficient in providing client services. However, most staff activities were highly operational, with little strategic content. Because the corporation's mission statement set strategic human resources planning as a goal for the human resources function, the results of the HRMA made the staff begin to develop a tactical plan that would move them from purely operational activities toward a more strategic role in the company.

Summary of the Audit Results. Figure 4 summarizes the analysis of each model component fit. The overall analysis led to the development of an ideal state or goal for the human resources organization. The diagnostic findings answered basic questions such as those raised at the beginning of the article. For example,

1. How well do the human resources organization's mission and strategy match its environment, markets, regulatory constraints, and so on? The findings indicated there were some problems of fit because of the complexity of the internal marketplace, the multiple clients, multiple service needs, and a management that didn't give clear directions. The mission and strategy ought to reflect this complex environment and be well understood and accepted by the staff. Because such a strategy was lacking, managerial and strategic tasks were ignored.

2. How well do the structures of the human resources organization fit with its strategy and tasks? At the operational level, the fit was good. However, it wasn't good at

Figure 4

SUMMARY OF AUDIT FOR MODEL COMPONENTS

(Case Study Corporation)

COMPONENT	*SUMMARY DIAGNOSIS*
Environment	Environment is quite complex and changing. It includes multiple markets with the need for multiple services.
Mission/strategy	Both mission and strategy fit well with environment but they are not fully understood or agreed upon by many staff members, and they are seen as inaccurate by many clients and users.
Tasks	Tasks are appropriate at the operational level, but are not well developed at the managerial and strategic levels.
Prescribed structure	Prescribed structure is functionally organized with reliance on simple integrating mechanisms, such as rules and hierarchy, and a lack of more complex mechanisms, such as liaison roles, teams, and information systems.
People	People are technically competent at the operational level (with a few exceptions). Motivational needs are not well matched with organizational rewards, especially career mobility. People lack strategic orientation.
Emergent structure	Emergent structure is nontask-related—that is, people do not interact informally across functional areas.
Processes	Conflict about tasks is well-managed. Communication about goals needs to be improved. Rewards need to be changed. Control system needs to be upgraded.

the managerial and strategic levels. To match the mission and strategy more closely to external complexities, new and more complex job functions would have to be developed. These job functions would require more complex integrating mechanisms than were available in the organization. All this would culminate in the creation of higher costs for the human resources function.

3. How well do the processes fit with the tasks and the organization design? Again, at the operational level the fit was fine, but if new managerial and strategic tasks were to be introduced into the organization and a more complex set of integrating mechanisms used, the processes would have to be adjusted. The reward system would have to reflect the new tasks. People would have to be rewarded not only for operational-level performance, but for contributions to managerial- and strategic-level tasks. This would be difficult to evaluate quantitatively in the short run. New control systems would have to be designed to monitor progress on long- and medium-term tasks. Finally, communication about goals would have to be improved. Managerial and strategic tasks can be carried out only when people understand one another's goals and are committed to them. Strategic and managerial planning processes are needed to define and accomplish a total set of goals.

4. How well do the characteristics of the people who conduct the human resources function match the tasks, organization design, processes, and emergent networks? At both the operational level and the managerial level the fit was good, but not at the strategic level. The people were highly professional; the majority had received graduate training in personnel-related areas. In addition, they were professionally oriented and motivated to upgrade themselves. However, they were unfamiliar with strategic-level issues and thinking. They had had little experience in that area, had never been rewarded for operating at that level, and needed considerable development to do so.

5. How well does the emergent structure fit with the other components? Managerial- and strategic-level tasks fit poorly because they require networks that are interconnected across functions and levels. A fluid structure allows problem-solving groups to come from across the organization to bring their expertise together to concentrate on tasks that need attention. To foster the development of such networks, people should be rewarded for managerial- and strategic-level activities. In addition, the practice of rotating people through the human resources organization and the use of task forces and committees promotes the emergence of a fluid structure rich in interrelationships.

Figure 5

ANALYSIS OF FITS

(Case Study Corporation)

FITS	*CHANGE IMPLICATIONS*
Environment to mission and strategy: Not well matched as the environment is complex and changing, and the mission and strategy is quite mechanistic in practice.	Need to further articulate the strategy for the complex environment; need to stress ongoing marketing functions for assessing changing client needs, as well as stressing the development of a more integrated strategy.
Mission/strategy and tasks: The fit with the espoused mission is not good as it implies managerial- and strategic-level tasks that are not performed.	Need to develop managerial and strategic level tasks.
Tasks and prescribed organization: If managerial- and strategic-level tasks are developed then there will be poor fit.	Need to develop more complex integrating mechanisms to manage managerial and strategic level tasks.
People/tasks/prescribed organization/processes: People in moderately good fit even if the other components change.	Technically, people OK for both operational and managerial level activities, need development at the strategic level; the managerial style at the top is organic, need to develop others reporting to the top.
Processes/prescribed organization: Fit is not OK for managerial and strategic levels.	Need to have more open communication cutting across functions, need a reward system better matched to people, and need a control system to monitor managerial and strategic activities.
Emergent/prescribed organization/processes: Fit is not OK for managerial and strategic levels.	Need to foster more task-relevant networks by (a) placing people strategically, (b) developing liaisons, and (c) rewarding strategic activities.

Proposed Action. The audit uncovered a number of major areas that required change. A change strategy that would move the human resources organization through the transition state would have to manage three types of change -- technical, political, and cultural. Any major organizational change requires adjustment in all three areas. The technical area refers to the way in which the organization solves the production problem -- that is, how the organization arranges people, information, capital, and so forth to produce its services. The political area deals with the allocation problem -- that is, how the organization allocates power; how it fits in with other power centers in its environment; and how such rewards as promotion and pay are allocated. The cultural area refers to the value/ideology mix problem -- that is, the appropriate norms and beliefs about behavior that organization members should possess.

Change dynamics are different in each instance, but the change strategy for the human resources organization in this case would involve shifts in all three of these areas. Technical change would require using rational problem-solving tools to come up with analytically sound blueprints for change and engineering model fits for the technical area. Because the political area is based on conflict, change there must rely on tactics like bargaining, manipulation, and confrontation. Change in the cultural area calls for an examination of norms and values, often using such group-based methods as action research, data feedback designs, and team building. Changes proposed for the case example include:

- Technical changes. The human resources organization must review its mission and strategy to see whether they fit the complexity of its environment. In addition, the mission and strategy must be clearly communicated, understood, and adhered to by all key parties. Following this, the internal organization must become more fluid in structure. The change implications shown in Figure 5 provide the basic blueprint.

- Political changes. The technical changes will trigger a set of political issues. First, the proposed changes have political implications for the human resources organization's relationship with line managers. By moving into the strategic area, human resources staff must also bargain with senior management about the amount of influence each group will have on decisions that were previously the sole prerogative of senior managers. In addition, the human resources organizaton's budget may have to be increased to provide an allocation adjustment. Within the human resources organization, technical changes could mean that some people's

power bases are increased while others' are decreased. More experienced staff members who may be more operationally focused may find themselves in less powerful positions, while newer staff members with more generalized training may gain power. New roles that emerge as a result of the organizational structure -- for example, liaison people -- may create new power bases. The change process will need to handle the inevitable political conflict created by the technical changes.

- Cultural changes. The technical and political changes in the organization will trigger changes in the cultural area. For one thing, the functional specialist will no longer be as highly valued. New norms will emerge that tend to reinforce and place a higher value on a generalist orientation that focuses on managerial and strategic issues. Also, proactive behavior will be more valued than reactive responses. The process will have to deal with the transition to a new culture with, most likely, conflicting subcultures.

Five Steps Toward the Goal

The following steps were proposed as guidelines to help the human resources department move toward its goal.

Step 1 - Set Priorities

The first task is for the human resources department to clarify its own priorities on the basis of the audit's findings. Then, on the basis of a technical, political, and cultural assessment of the whole corporation, it would have to be determined whether it was a good time to launch a major change activity. If the decision to go ahead is made, the group will have to set its priorities for change and develop a technical, political, and cultural set of strategies for managing the transition.

Step 2 - Get a Mandate from Senior Management

The next step entails getting a new mandate from senior management concerning the human resources department's role in the organization. If senior management won't support the proposed move into managerial and strategic activities, it would be politically destructive for the department to make a major change in this direction. It was recommended that the audit be used as a means of bringing the problem to senior management's attention. The data feedback would give them a handle on the problem.

Step 3 - Get Staff Commitment and Development

Once the scope of senior management's mandate is set, the total human resources staff would have to be brought on board. The audit would have to be thoroughly reviewed with them, and the management strategy would have to be shared and understood. At this stage, a combination educational and problem-solving process would be useful. The staff could use the audit review as a means of buying into the change strategy and of becoming educated about operational, managerial, and strategic issues. The human resources staff should then become involved in developing ways to manage the transition -- for example, setting up task forces to focus on different aspects of the change that is needed. These task forces could be organized by components of the model and/or political, technical, and cultural change issues.

Step 4 - Set Strategy for Working with Clients/Users

Groundwork must be laid with clients and users who would have to deal with any changes in the human resources organization's operation. One approach might be to provide them with summary feedback from the study, showing them what the audit found and how the human resources department plans to improve its operation and upgrade its service. It would be best for the staff to work out political issues involving clients as they arise. The change process will extend over several years and any changes in power will occur gradually. It will be important, however, to monitor clients over a period of time by readministering the portions of the audit that collected data from them. Such monitoring will provide ongoing market research information.

Step 5 - Set up a Development Plan for the Organization

To help the human resources department staff during the transition, the development should probably follow the sequence presented below:

Mission/strategy. Change here should be based largely on needs created by the external environment, a complex changing market, and a changing regulatory and economic environment. A strategic decision-making process should be put into place to accomplish the following:

- Tie into the business strategic plan by providing the organization's strategic decision makers with useful, quantitative data on current and future human resources needs.

- Have a strong marketing orientation to the multiple client and user groups in the organization. This will require development of ongoing market-scanning mechanisms.

- Involve key human resources staff at many levels of the strategic decision-making process so they can understand and become committed to the human resources strategy.

Tasks. These follow from the mission and strategy. Once they are developed, a matrix like that in Figure 1 can be used to list critical tasks for each function at the three levels. Then an assessment of what is needed to successfully carry out each task in terms of people, organization design, processes, and emergent networks can be made.

Formal structure. The critical concern here must be to design a structure that integrates and coordinates organizational resources to accomplish the priority tasks. The design is not automatically plugged in; it must be developed incrementally and the organization must be helped to move toward it. Thus an ongoing organization must be helped to move toward it. Thus an ongoing organization design process needs to be developed for the transition. The change might start with task forces assigned to certain tasks, then the task forces might become teams, and finally, they might be placed into permanent matrix structures to manage the tasks. It is conceivable that higher-level human resources managers' jobs could include operational and managerial tasks as well as strategic tasks. Just as Texas Instruments' senior managers devote part of their time to managing products and part of their time to developing strategy, human resources managers could divide their time among tasks at the three levels.

It is also important to use the same motivational assumptions when you construct individual components of the human resources function and integrate operational-level tasks. Too often, the motivational assumptions behind the designs of such components as the compensation system, the development system, and the selection system are inconsisten or even mutually exclusive.

People. The shift in the human resources function to more managerial - and stragegic-level tasks calls for a shift in the orientation of human resources managers. The points of view of both the general business manager and the technical specialist are needed. Although MBA's have not traditionally been hired as human resources staff members,

they are one group that combines both points of view and, as such, are a valuable source of such managers.

Processes. The two key processes that need major attention are reward and control. As the tasks and the organization design shift, these two processes must be brought into line so that they will reinforce and improve upon the change. The audit data that have been collected and monitored should help the organization match the rewards the staff values with the rewards the organization can afford. Control systems that monitor tasks at all three levels will also have to be developed.

Emergent networks. These are best developed by using the rewards system to encourage human resources staff to informally address managerial and strategic concerns. Also, transfer and promotion procedures can be used to weave together emergent networks that foster the development of the whole human resources department.

Summary and Conclusions

This article has suggested a process for moving the human resources management function from one dominated by operational-level concerns toward one that supports and improves organizational activities at the managerial and strategic levels.

Three sets of linkages must be established:

1. Strategic link. On the business side, the key issues involve deciding what business the organization is in, choosing objectives and reviewing them, identifying major priorities, specifying major programs, and developing policies to achieve goals. On the human resources side, the key issue is determining the kind of people needed to run the business in the long term, choosing the specific policies and programs for the long-term development of human resources for the future, and fostering the appropriate social and cultural context within which the objectives are likely to succeed.

The strategic link calls for dialogue between the business concerns and the human resources concerns. This dialogue gets reflected in the establishment of boundaries around the human resources context for strategic planning (for example, what kind of human resources will the organization need over the long term?). In addition, the strategic link involves a dialogue about the trade-offs between human, financial, informational, space, and other resources as reflected in the organization's different strategic commitments.

2. Managerial link. The business side of the process begins with the strategic plan as the guiding framework. The major focus is on resource acquisition to carry out the strategic plan as well as the development of procedures for measuring and monitoring performance. On the human resources side, the issues are the development of an effective and efficient human resources system for acquiring, appraising, rewarding, and developing human resources to achieve the strategic goals.

The managerial link involves dialogue around such issues as: Do we promote from within or hire from outside to develop the human resources needed in the medium term; how do we meet the needs of the internal markets for human resources services; what are the strategies for each of the subfunctions of human resources?

3. Operational link. At the operational level, the business side is concerned with the execution of day-to-day tasks -- producing the organization's products. On the human resources side, the concern is ensuring that the people come to work, perform, get evaluated, and rewarded and that they have the job skills they need or are trained in acquiring them.

Guidelines for improving human resources management.

Upgrading the human resources management function requires creation of the strategic managerial operational links discussed above. This calls for a five-step program.

Step 1 - Conduct an organization-wide human resources management audit. Change efforts should be grounded in a systematic data-based assessment of the current state of human resources management. The HRMA consists of an organizational model along with specific data-collection instruments that are designed for just such an assessment.

Step 2 - Make plans for the future based on market data. The audit includes a focus on the organization's external environment as well as on marketing data from internal groups of client/users. The development of the desired state for the human resources function should be based on both the internal market analysis and an assessment of the external environment.

Step 3 - Make sure line management owns the process. Ultimately, to be useful, the audit must have the commitment of senior line management because it is this group that must make the political adjustments needed to upgrade the function.

Step 4 - Make sure that managing the strategic, managerial, and operational links is a joint line and staff responsibility.

Step 5 - Upgrade the human resources function by making technical, political, and cultural adjustments. The transition to a new level of human resources operations entails major adjustments in how the function is organized to deliver its services. Political adjustments are required since line managers have typically assumed that many important human resources decisions are primarily their prerogative. At the cultural level, new norms and values will be required to support the professional management of people. Human resources staff will have to develop a more proactive stance, take a more long-range perspective and line orientation. Finally, line management itself will have to develop a new sensitivity to and awareness of the human resources implications of their work.

Selected Bibliography

A distinction between strategic, managerial, and operational activities was presented by Robert Anthony in his now-classic book, Planning and Control Systems: A Framework for Analysis (Division of Research, Graduate School of Business Administration, Harvard University, 1965). This book provides one of the earlier sets of guidelines for strategic planning in business firms.

A good summary of the current state of the art in strategic planning is found in Charles Hofer and Dan Schendel's Strategy Formulation: Analytical Concepts (West Publishing Company, 1978). It can be noted in their book that scant attention has been given to strategic human resources concerns.

James Walker made the case for a better link between strategic business planning and human resources planning in an article that appeared in Human Resource Planning, Spring 1978. In this article, Walker described how several companies were beginning to make the linkage. The Walker framework provides a useful catalogue of strategic planning issues. The case examples used in the article have yet to meet the expectations raised more than two years ago.

A well-developed argument for linking human resources planning to strategic planning is presented in Edgar Schein's Career Dynamics: Matching Individual and Organizational Needs (Addison-Wesley, 1978). Schein presents a very comprehensive framework that can also provide guidelines for the design of a more integrated human resources system.

Finally, the article deals with managing change. Richard Beckhard and Ruben T. Harris provide a set of practical guidelines along with case examples of how to successfully manage complex organizational change. Their book is Organizational Transitions: Managing Complex Change (Addison-Wesley, 1978).

HUMAN RESOURCES MANAGEMENT:
LINK TO STRATEGY AND STRUCTURE

Mary Anne Devanna, Charles Fombrun
and Noel Tichy

Discussions of the current state of American industry tend to center on two issues: the declining productivity of the American worker and the declining rate of innovation in American industries. Theories abound as to the cause of these declines and solutions to put it right are no less numerous. While the causes of these problems are much too complex for us to consider in the context of this discussion[1] and the systems we are about to present only a small part of the solution that may be needed to revitalize the economic infrastructure in the United States, there is a belief on our part that more effective systems for managing human resources within companies will lead to increased effectiveness in organizations.

To bolster this argument, this chapter will present a framework for conceptualizing human resource management and will explore the links between human resource management and the formulation and implementation of strategic corporate and/or business objectives.

Managers and Organizational Models

Fombrun has made the point that the environment most organizations face has become increasingly complex and that it tends to change at an ever more rapid rate when compared to a decade ago. Managers faced with the problem of processing increasing amounts of information need some way of organizing these data so that they can focus on what is critical in terms of their organization's effectiveness. They need a set of conceptual frameworks that allows them to understand not only how the status quo works but how required adaptations in organizational strategy will impact on existing systems and which systems will have to be modified if the new strategy is to work.

Some of the frameworks we will present are essentially descriptive. They will focus attention on issues that managers might want to think about under differing conditions such as the implementation of increasingly complex organizational structures. Other models such as the human resource cycle have an element of dynamism in them to the

---

1. The productivity issue has been addressed in some detail in books such as Amitai Etzioni's An Immodest Agenda, and articles such as Robert Hayes and William J. Abernathy's "Managing Our Way to Economic Decline" which appeared in the Harvard Business Review. A challenge to these views was put forth in an article written in the New York Times, January 13, 1983, by Richard B. West and Dennis E. Logue.

extent that the process involves feedback loops that provide for increasing organizational effectiveness through successive interations of the human resource cycle.

In both cases, however, the models or frameworks are abstractions of a highly complex reality and managers should feel free to adapt them to the particular circumstances that they face in their own organizations. In addition, the authors look upon these models as evolving and it is our hope that they will become more refined as our own knowledge of human resource management increases.

Strategic Management

Organizations exist to accomplish some mission or set of objectives. Over time the reason for any organizaton's existence may change so completely that it is difficult to identify the current organization with its historical predecessor except for name or continued existence as a legal entity. American Telephone and Telegraph is undergoing such a metamorphosis. More frequently the change in mission or corporate objectives is of a more incremental nature as the organization adapts to changing consumer tastes or competitive threats. Thus, at any point in time the organization has a reason for being, an objective that it tries to accomplish through the use of money, material, information and people.

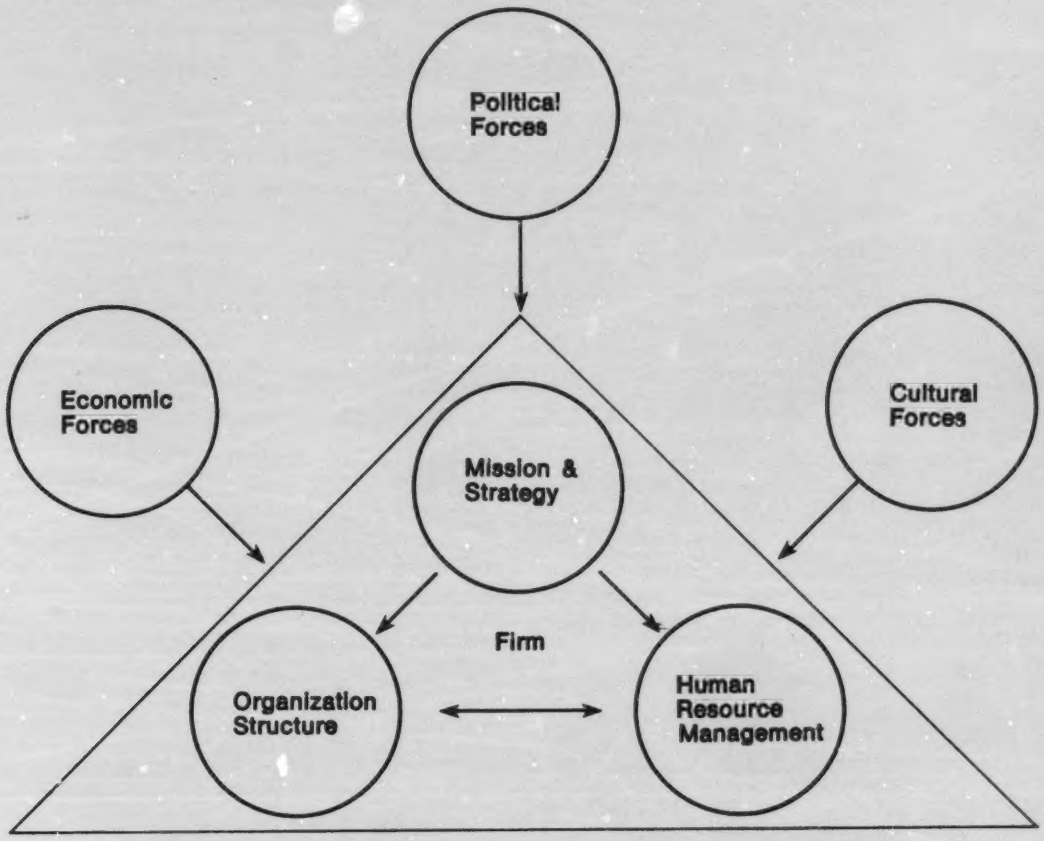
To accomplish its mission or objectives, the firm must decide what is the optimal structure needed to carry out its objectives. Once the nature of the structure is decided upon, it must attract and retain sufficient numbers of people to carry out the tasks needed to see that its objectives or strategy are effectively implemented. Figure 1 presents the basic elements of mission or strategy, organization structure and human resource management as interrelated systems that are embedded in the work environment. This framework differs from the traditional view of how a firm should think about strategic management in that it includes human resource management as an integral tool that managers can use in the strategic arena in their organizations.

In this framework, we will define strategy as both the process by which the objectives of the organization are chosen from the set of all feasible objectives available to the organization and the process by which the organization uses its resources to carry out those objectives.

Structure is viewed as the way in which the organization is designed to carry out its objectives and includes the concepts of the fundamental division of labor and description of jobs to be done, aggregated into groups, projects,

Figure 1

STRATEGIC MANAGEMENT AND ENVIRONMENTAL PRESSURES



functions or businesses as well as the notion of the degree of centralized or decentralized control that top management exercises over the operating units.

The Link Between Strategy and Structure

Alfred Chandler (1962) argued that the structure of an organization followed from its strategy.[2] He classified strategies that resulted in structural modifications in organizations as being of four types: 1) expansion of volume, 2) geographic dispersion, 3) vertical integration and 4) product diversification. As organizations grew larger and became more complex, they underwent structural transformations from functional through product forms. Thus, Chandler's marriage of strategy and structure addressed the need to adapt the sociotechnical system to the objectives of the firm at varying stages of its evolution. Firms that failed to adapt their structures to the new strategies were plagued with inefficiencies until the pressure for adaptation forced the adoption of a new structure.

Strategy, Structure and Human Resource Management

Chandler's thesis has influenced two decades of scholarship and practice in the business strategy area. But, it was not until Galbraith and Nathanson (1978) addressed the issues of strategy implementation that attention came to be focused on another managerial tool which could be used to facilitate the implementation of strategy: human resource management.[3] Galbraith and Nathanson focused on such issues

---

2. In this analysis we will beg the question which Chandler did ask as to why the strategy which required the structural adaptation arose in the first place. Readers who are interested in the issue can refer to Chandler's notion that shifts in conditions external to the firm presented either opportunities or threats that the firm responded to with a new strategic direction; to Penrose's competing view that strategies are born in the minds of managers independent of external conditions and that the changes in corporate strategy were simply an ex post facto recognition of these individual initiatives on the part of managers; or to the recent work of Burgelman which incorporates these seemingly incompatible views of strategic management in a single model.

3. We are obviously not implying that importance of the human element in organizations had not been previously recognized. It has received considerable attention from behaviorally oriented researchers from Elton Mayo to the present and plays a central role in management texts such as Newman and Warren's Process of Management. Galbraith and Nathanson, however, focused attention on human resource systems as an extension of Chandler's analysis of strategy and structure.

as fitting performance measures to the strategy and structure as well as to rewards, career paths and leadership styles. In Table 1 we have expanded upon this framework to describe the human resource systems that fit with different stages of the growth that many organizations pass through from birth to maturity.

The argument being made here is that just as firms will be faced with inefficiencies when they try to implement new strategies with outmoded structures, they will also face problems of implementation when they attempt to effect new strategies with inappropriate human resource systems. The critical managerial task is to align the socio-technical structure and the human resource systems so that they drive the strategic objectives of the organization.

Human Resource Systems: The Underlying Hypotheses About People

An analysis of the human resource systems of large companies would yield information about what assumptions the designers of those systems hold about people. Are they Maslow's self-motivators who primarily seek opportunities to develop their competencies or do they more closely resemble a Skinnerian prototype seeking to avoid punishment and obtain rewards? While most managers probably do not consciously articulate their beliefs, they can be deduced from the control systems that they fashion to motivate human resources in their companies. Since they do not consciously think in these terms we frequently find incompatibilities in the subsystems. For example, it is not at all unusual to find that the compensation and promotion system is predicated on the notion that poeple will turn in higher levels of performance if those levels of performance are tightly linked with monetary and promotional rewards. On the other hand, people responsible for the management development and/or organizational development strategies in the same companies see people as basically self-motivated and seek to create cooperative environments in an essentially competitive world.

Waterman and Peters (1982) point out that excellent companies have clearly articulated their management philosophy about their people and their relationship to the organization. Some of the dimensions that managers might want to consider are:

1. Nature of the Employment Contract: What is the nature of the "psychological contract" that we hold with our employees? On one end of the spectrum is the notion of "a fair day's work for a fair day's pay" where the employer focuses on the extrinsic rewards associated with performance and designs systems that will link these rewards to short-term performance. Many U.S. blue-collar jobs fit this

Table 1

HUMAN RESOURCES MANAGEMENT LINKS TO STRATEGY AND STRUCTURE

		HUMAN RESOURCE MANAGEMENT			
STRATEGY	STRUCTURE	SELECTION	APPRAISAL	REWARDS	DEVELOPMENT
1. Single Product	Functional	Functionally oriented: subjective criteria used	Subjective: measure via personal contact	Unsystematic and allocated in a paternalistic manner	Unsystematic largely through job experiences: single function focus
2. Single Product (vertically integrated)	Functional	Functionally oriented: standardized criteria used	Impersonal: based on cost and productivity data	Related to performance and productivity	Functional specialists with some generalists: largely through job rotation
3. Growth by Acquisition (holding company) of Unrelated Businesses	Separate, Self-contained Businesses	Functionally oriented, but varies from business to business in terms of how systematic	Impersonal: based on return on investment and profitability	Formula-based and includes return on investment and profitability	Cross-functional but not cross-business
4. Related Diversification of Product Lines through Internal Growth and Acquisition	Multidivisional	Functionally and generalist oriented: systematic criteria used	Impersonal: based on return on investment, productivity, and subjective assessment of contribution to overall company	Large bonuses: based on profitability and subjective assessment of contribution to overall company	Cross-functional, cross-divisional, and cross-corporate/ divisional: formal
5. Multiple Products in Multiple Countries	Global Organization (geographic center and world-wide)	Functionally and generalist oriented: systematic criteria used	Impersonal: based on multiple goals such as return on investment, profit tailored to product and country	Bonuses: based on multiple planned goals with moderate top management discretion	Cross-divisional and cross-subsidiary to corporate: formal and systematic

Table adapted from J. Galbraith and D. Nathanson, *Strategy Implementation: The Role of Structure a.* *Process* (St. Paul, MN: West Publishing, 1978).

description and, indeed, managerial work in some organizations can also be characterized by this philosophy. On the other end of the spectrum is a contract that stresses "challenging, meaningful work in return for loyal, committed service." Most of the companies that Peters and Waterman described as truly excellent are bunched at this end of the spectrum although not all of the companies that received high marks in a recent Fortune survey would be characterized in this way.

2. Degree of Participation in Decision Making: A second policy decision that managers make about their people is the extent to which they are willing to share decision making and power through the organization. Firms could be ranked on a continuum depending upon the degree to which they are driven by "top down" as opposed to "bottom up" decision making. In a top down organization, the human resource system centralizes all key selection, appraisal, and reward and development decisions. A bottom up system encourages widespread participation in these activities.

3. Internal vs. External Labor Markets: Organizations also vary on the degree to which they promote from within vs. hire from external labor pools. In many mature companies, these options are a matter of choice for management. In some companies that, are growing rapidly or diversifying into unrelated areas the choice about the development or hire decision may be more limited. In most companies, however, there is an expressed preference for one strategy of selection above the other and it tends to influence the context in which human resource systems are developed and operated. In companies with a strong "promote from within" orientation, there will be an associated stress on development as a strong human resource tool. In companies at the other end of the spectrum, we would expect to find a strong recruiting function and a relatively weak development function.

4. Group vs. Individual Performance: Human resource systems can be geared toward collective, group-based performance or individual performance, or toward some mixture of the two. In some cases, these choices are dictated by the technology involved with group-based performace systems being required when it is difficult or impossible to evaluate the contribution of individual performers to the overall effort. In other cases, the system is a matter of choice and is meant to support a cultural orientation toward cooperative rather than competitive climate. In either case, the issue of social compatibility becomes important in the selection process.

The Human Resource Cycle

Once management has articulated a philosophy about people, it can begin to focus on the design of the human resource system. Figure 2 shows the four generic functions that are performed by human resource managers in all organizations. This cycle represents sequential managerial tasks. The dependent variable is performance and the system is designed to impact performance at both the individual and the organizational levels.

Performance is a function of all the human resource components: selecting people who are best able to perform the jobs defined by the structure; appraising their performance to facilitate the equitable distribution of rewards; motivating employees by linking rewards to high levels of performance; and, developing employees to enhance their performance in their current jobs as well as to prepare them to perform in positions they may hold in the future.

If we go back to Figure 1, we understand that performance is not only a product of the human resource system but of the other components as well. Thus, strategy and structure also impact performance through the way in which jobs are designed, through the way in which the organization is structured and through the choice of appropriate strategy to meet environmental threats and opportunities.

Level of Managerial Concern

The balance of this article will deal with the human resource systems as they impact the strategic activities of the organization. To define our focus, it is necessary to add one more degree of complexity to the frameworks we have presented. To do this, we will use Robert Anthony's definition of the three levels of managerial work: the strategic level, the managerial level and the operational level.

The strategic level deals with policy formation and overall goal setting; its objective is to position the organization in a way that it can deal effectively with its environment. The managerial level focuses on the processes by which the organization obtains and allocates the resources needed to carry out the strategy or objectives. For example, to effectively compete in the businesses specified in the strategic plan, the organization must assess the capital, information, technology and people it will require to execute the strategic plan. At the operational level, the day-to-day management of the organization is carried out. While the process just described seems to be a top down system, it hopefully incorporates feedback loops that allow the organization to formulate strategy more effectively by using data about the current availability of the resources needed to carry out the strategy.

Figure 2

THE HUMAN RESOURCE CYCLE

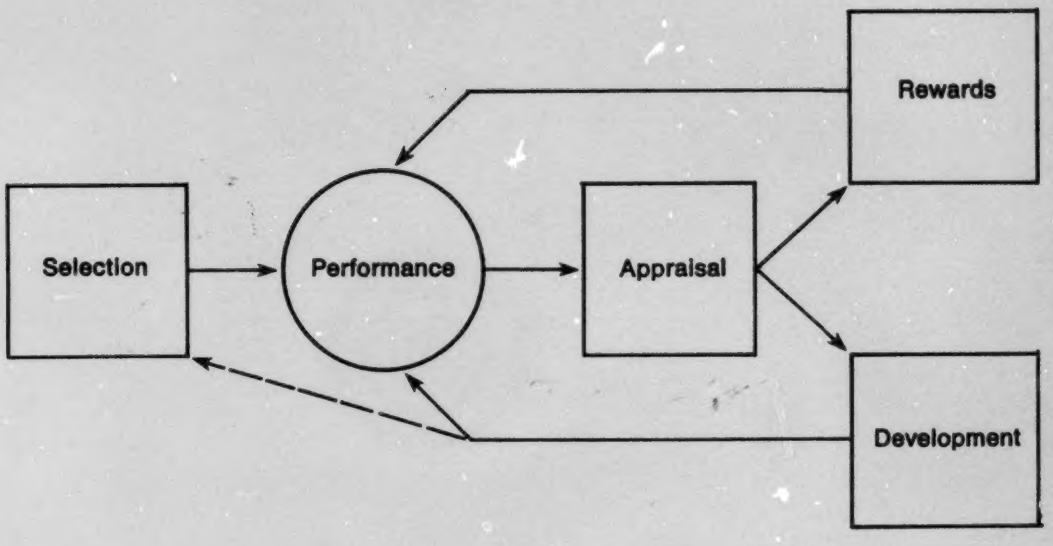


Table 2 presents examples of the types of activities associated with the three levels of management for the human resource subsystems. The activities listed in the operational category are the day-to-day tasks discussed in most personnel texts and carried out in most organizations. Managerial activities include evaluating current practices to see if they are meeting client needs and integration of the subsystems so that the entire human resource system is philosophically consistent. At the strategic level, organizations should be concerned with two issues: How will the business or businesses that we plan to be in in the future differ from the businesses we are in today? And, what environmental pressures will we have to deal with that we do not have to deal with today? This latter category would include changes in legislation impacting the human resource areas in any governmental jurisdiction where the company operates plus changes in the work or social values of the population.

Professional execution of the operational and managerial activities is a necessary but not a sufficient basis for an effective human resource organization. It is the strategic level activities, however, that begin to separate the truly well-managed companies from the competition.

Selection

The selection process includes all activities related to the internal movement of people across positions as well as to hiring. The process matches available human resources to jobs in the organization. Three strategic concerns are particularly important. The first involves the design of a selection system that supports the organization's strategy. For example, if a company plans to diversify in the next decade, then a careful analysis should be made of the types of people who will be needed to staff the new business or businesses. A parallel analysis should be made of the general availability of such personnel. Some illustrations of different problems that organizations face in this area can be gained from considering the diversification efforts in two industries: oil and chemical.

Most of the oil companies have launched major diversification efforts that will reduce their involvement with petroleum production and marketing as a single product business. The direction of the diversification has not been homogeneous across all companies in the industry. Mobil's initial efforts have brought businesses as diverse as Marcor, a labor intensive retailing operation, into their portfolio while Sun Oil has chosen to steer clear of labor intensive diversification and concentrate on capital intensive acquisitions. Both need to analyze the skills needed to operate such ventures as

Table 2

HUMAN RESOURCE ACTIVITIES

MANAGEMENT LEVEL	SELECTION	APPRAISAL	REWARDS (COMPENSATION AND FRINGE BENEFITS)	DEVELOPMENT
STRATEGIC	Specify characteristics of people needed to run business in long term Alter internal and external systems to reflect future	In long term, what should be valued? Develop means to appraise future dimensions Early identification of potential	In world as it might be in long term, how will work force be rewarded? Link to the long-term business strategy	Plan developmental experiences for people running business of the future Systems with flexibility to adjust to change Develop long-term career paths
MANAGERIAL	Longitudinal validation of selection criteria Development of recruitment marketing plan New markets	Validated systems linking current and future potential Assessment centers for development	Five-year compensation plans for individuals Cafeteria-style fringe packages	General management development programs Organization development Foster self-development
OPERATIONAL	Staffing plans Recruitment plans Day-to-day monitoring systems	Annual or more frequent appraisal system(s) Day-to-day control systems	Wage and salary Benefit packages	Specific job skill training On-the-job training

opposed to an oil company. They may need less technically trained manpower and more financially oriented people in the future. This may impact their hiring mix at entry levels now since the people that will be running these companies in twenty years will hopefully be drawn from a pool of individuals who are being hired now.

The chemical companies face a different dilemma. Most do not plan to diversify significantly out of chemicals but they share a need to get out of the commodities chemical business if they do not own their own petroleum feed stocks. This has both short-term and long-term implications for these companies. In the short-term, there is a need for marketing oriented people and more innovation to create products that can be sold as differentiated goods with the value-added profit accruing to the company. In addition to this classic vertical integration solution to the problem of rising petroleum costs, many chemical companies are pushing ahead on another front and that is to convert from current dependence upon petroleum feedstocks to new technological approaches such as the use of biomass. Human resource concerns in this area are more challenging since there is not a sufficient number of people being trained in the science disciplines associated with these technologies to meet the projected demand for their services.

Obviously companies engaged in these strategic shifts need to begin to examine current policies vis á vis their technical personnel since they will be facing a seller's market in these labor markets for some time to come. Practices such as dual career ladders and collaborative decision making with technical staff on technical decisions need to be evaluated and modified to ensure that the company will be able to hire and retain needed personnel. Truly strategic companies will also be investing funds and time on campuses to encourage more people to pursue the fields of study that meet their own future needs.

Some companies feel that such planning may not yield a sufficient return on the investment of time and energy to be worthwhile and adopt the notion that they will go out and hire the appropriate people when they are needed. The desirability of this approach has been brought into question by recent research such as John Kotter's (1982) findings that good managers, from an individual corporation's point of view, are not born but made. They are developed over fifteen to twenty years in large complex organizations and the implication is that it takes that long for them to learn the intricacies of managing a specific organization.

The second strategic concern is to monitor the internal flow of personnel to match emerging business strategies.

AT&T's move into the competitive electronics business forced a reappraisal of the types of managers they would need to lead the company for the balance of the century. The primary thrust has been to revalue certain managerial characteristics in such a way that people with good marketing skills and those most capable of innovation now are judged to have higher potential for promotion than those with good operating skills. This, of course, is a significant shift in the career path orientation at AT&T.

The third strategic concern is matching key executives to business strategies. In large companies where businesses are thought of as portfolios as opposed to single product ventures, there has been an increasing interest in matching people to types of business. One of the more commonly discussed approaches is promoted by the Boston Consulting Group in which businesses are categorized as to the stage of the product life cycle they are currently in and managerial characteristics appropriate to those businesses are identified and used as selection criteria for assigning managers to the different businesses. This work is still in its infancy and much remains to be done both in terms of assessing the validity of the approach and the reliability of various approaches used for assessing managerial characteristics.

Appraisal

The performance appraisal process is the key to an effective human resource system and yet it is frequently given little more than lip service. Much has been written on why managers avoid performance appraisal and several approaches have been devised to put a sugar coating on what is perceived to be an unpalatable task. Thus, many companies talk about doing performance appraisal only for development purposes. If one were to ask whether or not they had a merit pay system (not to mention the criteria used for promotion) one would discover that a merit pay system did indeed exist but that decision was made in a different time frame from the performance appraisal feedback. By separating the events in time,the employee is not supposed to realize that if his or her appraisal indicates that performance is not up to par then, the salary adjustment will be small or non-existent. Obviously, this scenario is much more reminiscent of a walk with Alice through Wonderland than it is of an effective control system in an organization. Despite problems such as poorly designed procedures, psychological resistance on the part of managers to giving negative appraisals, resistance on the part of employees to being evaluated as average, it is important to devote significant amounts of managerial time to effectively appraise performance since it contributes to the following organizational processes:

1. The most important ingredient in the distribution of scarce rewards in organizations is the perception on the part of the employees that the decision process around their distribution is equitable. If employees believe otherwise it is impossible to link organizational rewards to performance.

2. Rewards can be allocated on the basis of performance only if that performance can be measured. In the absence of the ability to measure performance, the organization has no control system to evaluate performance. Performance in some situations can be measured by objective criteria such as profitability, return on investment or market share and these measures should be used whenever possible. In situations where these measures are inappropriate the organization must rely more heavily on personal judgment by other managers.

3. Human resource planning depends upon valid appraisals. A current inventory of talent can be made only through a valid appraisal process that shows those who have been performing well and those who have not. In addition, future human resource projections depend upon assessments of the performance potential of existing personnel so that future manpower shortages or surpluses can be planned for. Without good performance,appraisal data such forecasting is impossible as there is no basis for making predictions.

4. The development process also depends upon accurate data generated by the performance appraisal system since it is the aggregated data on individual strengths and weaknesses that point up areas requiring training and development. It is this data which also permits the organization to examine different strategic alternatives in terms of their manpower feasibility.

Lorsch and Allen (1973) conducted a study which indicates that companies must develop a performance appraisal system that is supportive of their business strategy since there is a link between such a system and total performance for the firm. The study compared the appraisal systems in diversified companies with those in integrated companies and found that effective diversified companies placed more emphasis on objective and result measures such as productivity, profit or volume while the integrated companies relied more on subjective evaluations of the manager's ability to plan, control, lead and organize. While the diversified companies' approach is intrinsically more appealing,it does not work well in integrated companies where there is greater inter-divisional contact and sharing of resources which makes it hard to judge who gets credit for what share of the end results.

Repeated conversations with human resource executives in companies with well-respected performance appraisal systems such as Exxon and General Electric reveal that the key to effective appraisal is the willingness of management to devote time and resources to the process not only for the review of performance but also for the continued coaching or training of those responsible for doing the performance appraisal. Government challenges are increasingly being made on the basis of the form or criteria the organization uses and the organizations must respond to this reality, but the fact remains that a good performance appraisal system is probably less dependent on the technical aspects involved than it is on the process issues involved. Excellent managers and companies simply recognized that an integral part of management is the process of evaluating performance.

Rewards

Organizations tend to think of rewards in a fairly limited way as pay, promotion and benefits. Yet, in studies with diverse populations we have found that there are many other rewards that the organization has to offer that individuals value. A partial list of the rewards that are deemed to be important are:

- Pay in its many forms such as salary, bonuses, stock options, benefits and perquisites.
- Promotion, both upward mobility and lateral transfers into desirable positions.
- Management praise.
- Career opportunities, a long-term chance for growth and development.
- Positive feedback from customers or clients.
- Personal sense of well-being for doing a job well.
- Opportunity to learn, to develop new competencies.
- Job security, especially important in tight economic times.
- Responsibility.
- Respect from co-workers.

In a survey of Columbia MBAs who had been working for a decade,Devanna (1982) discovered that pay did not rank among the top three rewards that motivated this group when they took their first job or when they took their present job. The most important reward for new MBAs was opportunity to learn new skills and the most important reward for the group after ten years in the labor force was responsibility.

Most organizations do not do a very good job of managing these rewards and as a consequence the reward system in many organizations remains among the most underutilized managerial tools for driving organizational performance. We have already pointed out that the organization must do a good job of evaluating performance to be able to use the reward system. Assuming this is done, the organization has good reason for allocating rewards based on how well people perform. From a performance viewpoint this is a superior strategy to managing pay alone.

A major strategic issue is how to use the reward system to overcome the tendency toward short-sighted management. When organizational rewards are tied too closely to this year's performance,it is difficult to motivate senior executives to devote their time and energy to long-term objectives whose effect on the bottom line may not show up for several years. While it is unreasonable to suggest that managers be rewarded only for progress toward long-term strategic objectives, since organizations must perform in the present if they are to be around to perform in the future, the converse of rewarding solely for present performance is equally deleterious since it encourages managers to mortgage the future for present performance.

Another practice that has achieved much attention is the current trend in organizations to make a significant bonus pool available for distribution to a small percentage of the employees, those whose performance is perceived to be in the top 10 or 15 percent of all managers in a certain group. While this system provides tremendous incentive to succeed, it also provides tremendous incentive to engage in practices that would be more appropriate in a Las Vegas casino than in a Fortune 500 company. It also heightens the sense of competition that exists in all organizations as achievement oriented managers understand that not everyone will be promoted to the next level. Perhaps the most damning thing that can be said about this type of bonus system is that it brands the majority of the employees as failures since if only 15 percent will share the bonus pool, 85 percent will obtain no rewards despite the fact that they may have worked hard and made a valuable contribution to the organization.

Development

Activities designed to insure that individuals are properly equipped with skills and knowledge to carry out their jobs fall into the management development category. Most of the development that occurs in organizations takes the form of on-the-job training. To be effective this method requires the organization to think about job rotation as a developmental sequence aimed at producing as many people capable of filling key positions in the company as is feasible.

The second aspect of development is formal training or educational programs conducted either by the organization or with the aid of outside institutions whose function is to offer programs for executive development. The final developmental tool is one which occurs informally in most organizations but is being institutionalized in some companies: mentoring. While the importance of having a mentor continues to be debated, a study conducted by the authors at the Columbia University Strategy Research Center shows that more than two-thirds of the top executives who were interviewed in six major companies reported they had had a mentor and that this relationship had played an important role in their development as strategic decision makers.

In most organizations, this relationship occurs spontaneously and there is some debate as to whether a system of mentoring can be formalized within organizations. What is clear is that companies which do not have highly structured systems with checks and balances around performance appraisal and advancement may lose highly qualified people who are at early stages in their careers, simply because they were not assigned to influential superiors who could advance their careers. Tushman and Katz (1982) have shown a significant difference in the career advancement of high tech people depending upon their position in the laboratory. Those who had been assigned to project managers who were highly influential both inside and outside the laboratory were more likely to have achieved greater success than those who were assigned to less influential project managers.

Implementing Strategic Human Resource Management

Once a manager has used these frameworks to identify the scope of the human resource function in a particular organization the task becomes one of implementation. The following steps will provide a helpful guideline for that task:

1. The tasks that the organization needs to support its strategic objectives should be identified at the strategic, managerial and operational level.

2. Gaps in the delivery of service to clients at the present time should be identified. Just as it is not possible to reward managers solely for how well they meet long-term goals, so must a human system have its operational house in order before it can afford the luxury of concentrating on strategic formulation and implementation of human resource policy.

3. If the organization has no process by which it engages in the strategic planning at the corporate or the business level, then it will not be possible for the human resource function to develop a strategic thrust since the human resource strategy flows from the corporate or business strategy.

4. In terms of staffing the function, the organization will need to provide for people trained as business generalists so they can better respond to line management concerns.

5. The reward and control systems must be altered to support the strategic human resource function. Just as managers need to be rewarded for both performance of operational and managerial short-term objectives as well as for progress against strategic goals, there should be a parallel system to drive the human resource system.

6. Links must be provided between the human resource function and the line organization. While the debate over where responsibility for human resource management should reside -- within the function or in the line -- is being conducted, it is probably more important for the organization to admit the need to manage human resources and then to decide the structural design question of how to manage them based on existing organizational precedents, on what arrangement is most supportive of the culture or where the expertise resides.

Summary and Conclusions

Human resource management is increasingly recognized as an important force in driving organizational effectiveness. This article has provided a series of frameworks to help managers think about the role and structure of human resources in their own organization. The major beliefs underlying this structure are:

1. Human resource activities have a major impact on individual performance and hence on productivity and organizational performance.

2. The ability of organizations to innovate depends upon creating a culture supportive of innovation. The foundation of this system lies in the systems designed to manage innovative human resources.

3. The quality of the strategic decisions made in organizations is linked to the quality of the human resource data that feeds into the decision making process.

4. Success in the implementation of strategic objectives depends to a great extent on how well the organization has carried out its human resource cycle and selected the right people, measured the proper behaviors, rewarded progress against the strategic objectives and developed the skills needed to insure the success of the strategy.

THE ROLE OF HUMAN RESOURCES IN STRATEGIC PLANNING

Lynn Warren

Organizations are beginning to see the importance of utilizing human resource data in their strategic planning activities. In any industry which is labor intensive, one would expect that human resource data would be a top priority but this has not been the case in the past. In capital intensive firms this demand for human resource information may not seem so apparent; however, with recent concerns about productivity, both types of firms are bound to find a strong need for comprehensive human resource data systems. The questions stimulating researchers then become:

1. To what extent do corporations engage in strategic activities?

2. How much human resource data is available and utlized in the process of strategic planning?

Mary Anne Devanna and Kirby Warren of Columbia University's Graduate School of Business, Noel Tichy of the University of Michigan's Business School and Charles Fombrun of the Wharton School at the University of Pennsylvania, all of whom are affiliated with Columbia University's Strategy Research Center, set out to investigate these questions.

A questionnaire was sent to the chief human resource executives and strategic planners in 224 Fortune companies. Responses were received from 252 executives representing 168 companies. The survey was conducted to ascertain how the heads of strategic planning and human resource management viewed the role of human resource management in strategy formulation and implementation in their firms.

An interesting result of the study was that there was no statistically significant difference between the responses of the strategic planners and the human resource managers. This indicates that both groups' perceptions with regard to these issues are congruent. Therefore, in reporting the results, the responses of both groups have been combined.

The sample consisted not only of a large number of top firms, but also covered a cross section of industries. The survey was sent to aerospace, chemical, automotive, banking, life insurance, food and beverage and leisure time industries to name a few.

Prevalence of Strategy Planning Activities and Their Overall Effectiveness

Fifty-three percent of the respondents reported that formal strategic planning activities were used to a great extent in their company. Thirty-nine percent saw a moderate amount of strategic planning in use at their company. Clearly, the majority of the companies responding have a good deal of formal strategic planning going on. Although strategic planning processes seem very much a part of corporate activities today, results showed that fifty-two percent of the executives had seen these activities used at their companies for less than six years. Strategic planning can then be viewed as a somewhat recent addition to corporate life.

Human resource managers and strategy planners varied in their judgment as to the contribution of the strategic planning process to the overall performance of their companies. Thirty-one percent of the respondents reported that they found the strategic planning activities of their company moderately effective. Forty-eight percent found strategic planning more than moderately effective and twenty-one percent found the process less than moderately effective. In essence, executives found that formal strategic planning processes are at least moderately if not more than moderately useful in contributing to the overall effectiveness of the company.

The Role of Human Resource Management in Strategy Formulation

Respondents were asked two questions concerning the utility of human resource data in strategy formulation:

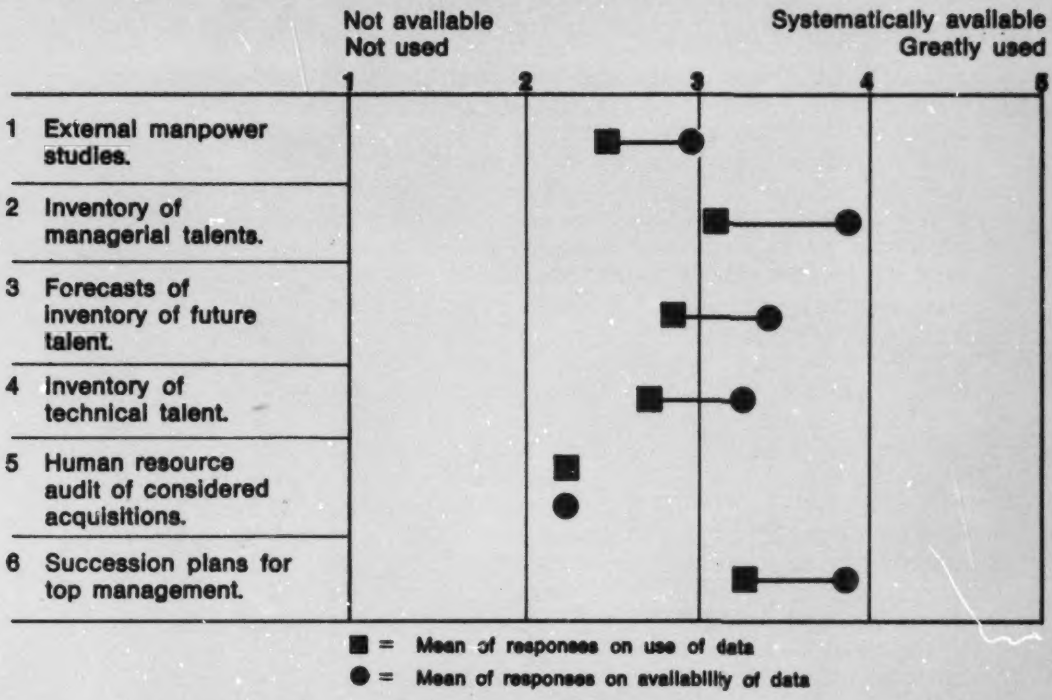
1. Is human resource data systematically available?

2. To what extent does it influence strategy formulation?

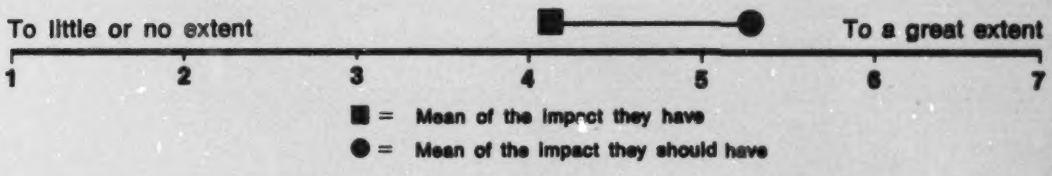
As seen in Figure 1, the executives were asked to apply these two questions to six categories of human resource data. They are listed on the left vertical axis of the chart. The results show where the majority of the respondents fell on the scale. Four of the six types of information were quite available to strategy planners; a) an inventory of managerial talent; b) forecasts of an inventory of future talent; c) an inventory of technical talent and d) succession plans for top management. The least available and least utilized information is a human resource audit of considered acquisitions.

When a company sets out to expand by getting into new ventures or by acquiring a company in a different line of business, they usually obtain detailed analyses from their

Figure 1 **AVAILABILITY AND USE OF HUMAN RESOURCE DATA**



IMPACT OF HUMAN RESOURCE CONSIDERATIONS ON STRATEGY FORMULATION



financial and marketing staff. Only recently have companies begun to seek information about the human resources of the target company. Such information would be extremely useful in the strategic planning of considered acquisitions. A company may offer an array of assets, making it a desirable purchase; however, if that company's human resources are, for any number of reasons, incongruent with the type of human resources existing in the purchasing company, assimilation will be difficult and problems may be exacerbated because they are neglected. Business Week, in their November 16, 1981 issue pointed to the problems Sears can expect as they venture into the area of financial services.

Companies are beginning to pay more attention to their human resources for many reasons. Today's employee has expectations, needs and personal desires which make the work options for employees and employers more varied and complex. It follows then that human resource considerations become an integral part of strategic decision making. Unfortunately, companies are only beginning to recognize the value of having accurate and comprehensive human resource data for planning activities. With this trend of companies and individuals having a more interactive relationship in establishing satisfying work-life styles, for their mutual benefit, human resource management departments are likely to find themselves assuming an increasing responsibility for developing useful manpower inventories.

Respondents reported that there are consistently more human resource data available than are actually utilized in the various decision making processes. The one exception is a human resource audit of considered acquisitions since this information tends to be collected only for immediate us considering an acquisition.

Executives wish to see more human resource information utilized in the strategic planning process. Fifty-three percent of the respondents felt that human resource considerations had less than a moderate effect on strategy formulation. Forty-seven percent felt that this information had a moderate or greater impact on the formulation process. More important was the response to the question concerning the desired impact. Eighty percent of the executives said that they would like to see human resource considerations have more than a moderate impact on strategy formulation. Only twenty percent felt that human resource information should play a minor role in formulating corporate strategy. In general, it seems that both human resource executives and strategic planners see a need to utilize more human resource data in strategy formulation.

The Role of Human Resource Management in Strategy Implementation

Strategy planning is a two-step process: formulation and implementation. The third phase of the survey focused on strategy implementation issues. The questions asked were:

1. To what extent are human resource activities used in strategy implementation?

2. To what extent should human resource activities be used in strategy implementation?

There were seven types of human resource activities considered as potentially useful for the strategy implementation phase of planning. These seven tools are enumerated on the left axis of Figure 2.

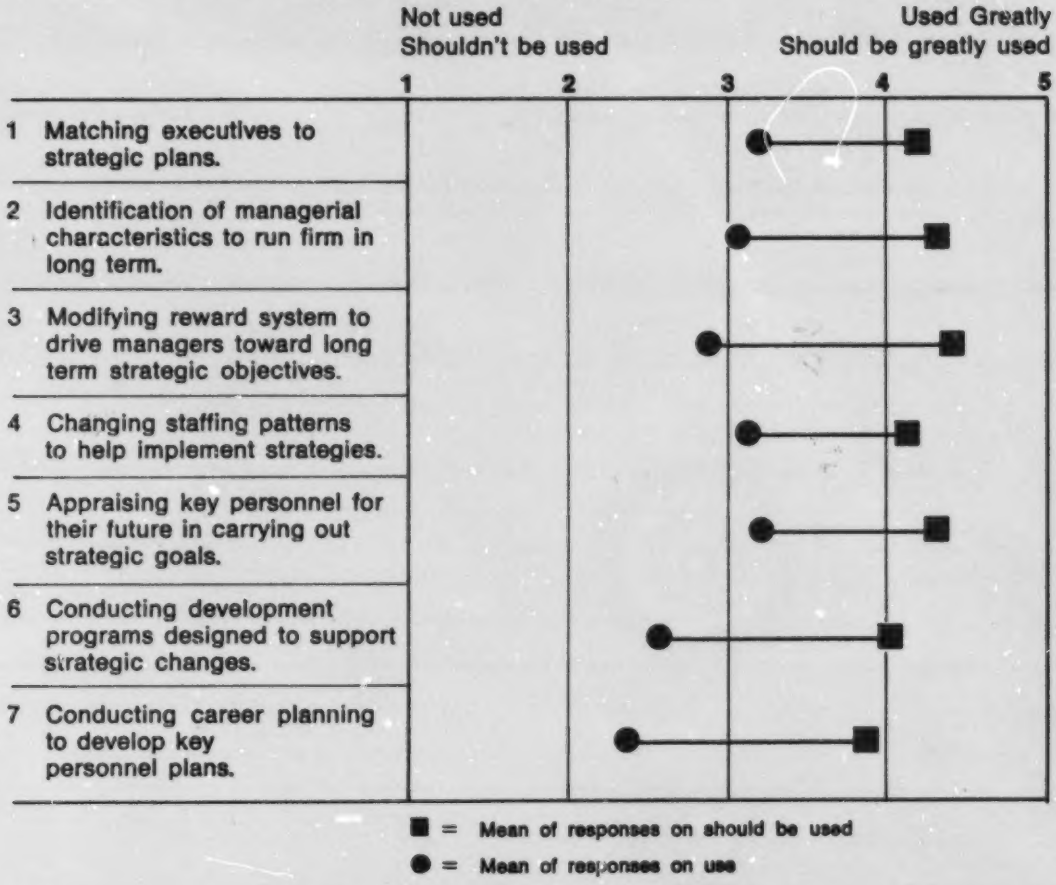
For the first five out of seven activities, the majority of respondents reported moderate utilization of human resource tools in strategy implementation. The last two activities -- conducting development programs designed to support strategic changes, and conducting career planning to help develop key personnel for strategic plans -- were regarded as less than moderately utilized in the implementation process, at this time.

It seems, from these results, that formal training and development programs have not been nearly as prevalent in corporations as assessment activities. Until recently, corporations have relied primarily on job rotation and teaching the executives the skills they need to aid in strategy implementation. With today's constrained economy and with the increased immobility of today's employees, job rotation is a less feasible human resource tool.

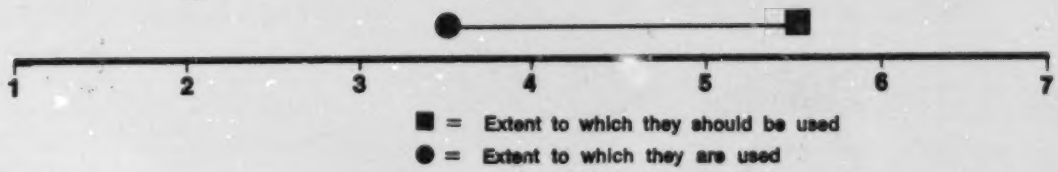
Figure 2 shows a consistently large difference between the use of human resource activities and how much the executives feel they should be used in implementing strategies. With regard to every activity, the respondents indicate a desire to see higher utilization of human resource activities in strategy implementation. The greatest difference between the actual and desired amount of utilization of personnel tools can be seen in the last two activities. It's interesting that even though these two activities are the least used in implementation now, they are equally as desirable as the other five for future use. This seems to verify the fact that formal training programs are becoming a necessity in today's corporate world.

Figure 2

THE EXTENT TO WHICH HUMAN RESOURCE ACTIVITIES ARE USED IN STRATEGY IMPLEMENTATION AND THE EXTENT TO WHICH THEY SHOULD BE USED


Not used
Shouldn't be used
Used Greatly
Should be greatly used
1
2
3
4
5
1 Matching executives to strategic plans.
2 Identification of managerial characteristics to run firm in long term.
3 Modifying reward system to drive managers toward long term strategic objectives.
4 Changing staffing patterns to help implement strategies.
5 Appraising key personnel for their future in carrying out strategic goals.
6 Conducting development programs designed to support strategic changes.
7 Conducting career planning to develop key personnel plans.
■ = Mean of responses on should be used
● = Mean of responses on use

EXTENT TO WHICH HUMAN RESOURCE ACTIVITIES ARE USED AS STRATEGY IMPLEMENTATION TOOLS AND THE EXTENT TO WHICH THEY SHOULD BE USED



In the final analysis, the respondents reported that they wish to see a much larger use of human resource activities in the strategy implementation process. Eighty-three percent of the respondents felt that human resource tools were currently being moderately or less than moderately utilized in the implementation phase of the strategic planning process. When asked about the extent to which they would like to see human resource activities utilized, ninety-six percent of the respondents reported that they would like to see a moderate or greater than moderate use of human resource tools for implementing strategies.

Historically, personnel has played a mostly reactive role in the company, supplying the necessary human resources post strategy formulation. It would seem that this role would lead to more involvement on the part of human resource departments at the implementation stage. Strategic planners have formulated corporate strategies and they wish to have help in implementing these plans from the personnel department. The data seems to support this notion. Fifty-seven percent of the respondents reported a moderate or greater use of human resource tools in the implementation stage of strategic planning, and only forty-seven percent reported a moderate or greater use of these tools in the formulation stage.

With regard to the respondents' desire to see human resource tools used in the strategic planning process, the results were similarly skewed toward a greater desire to see information utilized in the implementation phase than in the formulation phase. Eighty-six percent of the respondents wished to see a moderate or greater use of human resource information in the formulation of strategies, and ninety-six percent wished to see these tools used in the implementation phase. It seems that from the responses of the executives, there is still a very important role for human resource departments at the implementation stage of the planning process. And, while all tools offered to aid in implementation are important, there is an increasingly apparent need for formal training programs and career planning programs.

Given the importance of human resource activities in the implementation stages of strategy planning, it would seem that companies would benefit from recognizing what human resource managers can offer in the formulation stage. Too often, the human resource issues of the strategy planning process are the implicit part of the plan -- the unknown factor. It becomes very difficult to implement a new strategy when personnel has to find ways after the fact to deal with human resource needs that are incongruent with

existing company policies. Fombrun et al state that:

> The trends suggest that competing in the 80s will require a sophisticated set of tools for dealing with the problems of a highly educated work force in a slack labor market, competing for fewer jobs in an increasingly service economy. Organizations will have to carefully consider the implications of alternative recruitment and training strategies to ensure effective implementation of their plans. Indeed, the viability of these plans may largely depend on how well human resource needs and implications are understood and built-in to the planning process in the early stages of formulation.

How Human Resource Staff Are Generally Regarded by Senior Line Managers

In the final question, researchers asked the executives: a) to what extent senior line managers used their human resource staff for operational and strategic services, and b) what role do they believe personnel departments should plan in the corporation. Managers were asked to rate the role of the human resource staff on a scale of 1 to 5. The numbers were representative of the degree of operational versus strategic services personnel people were asked to supply. The exact descriptions were:

1. -- only looked to for operational (day-to-day) personnel services.

2. -- mostly looked to for operational services but once in a while for strategic.

3. -- looked to for operational and strategic services.

4. -- looked to somewhat for operational but more for strategic.

5. -- totally looked to for strategic services.

Ninety-four percent of the respondents saw human resources staff as providing either operational and strategic services or mostly or only operational services. That is to say that ninety-four percent of the respondents fell between numbers 1 and 3 on the scale. Furthermore, fifty percent of the total response to this question was on number 2.

There was a vast difference between these results and the results of the question about how they would wish to see the human resources staff viewed. On that question, ninety-

eight percent of the response rate fell between numbers 3 and 5 on the scale, clearly indicating that the respondents would wish to see human resource staff providing more strategic services. Sixty-five percent of the total respondents wished to see personnel as an operational and strategic function, but the majority of respondents felt that it was mostly looked to for operational services.

What Now? Human Resource Management's New Role

Regardless of the role that personnel assumes in the coming years, there are two kinds of data critical to the effective performance of this function:

1. Internal Human Resource Stock

2. External Labor Market Data

Both kinds of data have fairly obvious uses for the corporation. Human resource managers must be able to have an up-to-date index of the people in the company and the existing human resource market outside the company in order to perform its role in guiding the human resources of a company.

While both sets of data are important, neither is sufficient for strategic purposes. These kinds of inventories only describe present conditions, but what is needed is scenario forecasting -- projecting the future trends and needs of human resources.

Equipped with these two types of data and projections about future trends, human resource departments have two linkages with strategists: formulation and implementation linkages. The critical task for personnel at this point is to:

1. design a strong link from the human resource function to the strategic planning function at the formulation stage in order to ensure their consistency.

2. build a sufficient information base for human resource projection to support the business and corporate plans.

Human resource departments all have some responsibility for four basic generic activities:

1. selection: recruiting qualified personnel

2. evaluation: managing the performance appraisal process

3. rewards: maintaining adequate compensation and fringe benefits packages.

4. development: creating systems to enhance skills, promotional opportunities and career paths.

On an operational level, these functions can be performed to satisfy immediate company needs and desires. On a strategic level, however, these activities should be performed to reflect the long-term goals and strategies of the company. This would involve projecting the internal and external labor market conditions, and designing processes for performing these activities that would fulfill the thrust of the human resources plans of the company.

There are three basic things that human resource functions must be willing to do in order to improve their capacity to operate on a strategic level. They must:

1. Improve data collection and retrieval systems. Attitudinal appraisal and skills data must be readily available in flexible form.

2. Encourage strategic thinking within the different activity units of human resource management. Officers must be educated to the realities of corporate planning and constantly monitor trends in terms of their consequences for the company's human resources.

3. Link the activities of the human resource functions to the strategic plans of the company. Interact with executive line officers around strategy formulation.

Designing the Corporate Human Resource Strategy

The task corporations now face is designing human resource strategies that complement their range of businesses and business strategies. In companies with several businesses at various stages of growth and decline, it becomes essential to differentiate particular human resource strategies to suit the shape of the business. With this in mind, the company's human resource staff has to be designed to fulfill the requirements of its function. So, a personnel department in a start-up business will have to emphasize recruitment activities, while a more established business will require more training and development expertise.

The corporation must also be ready to integrate the different human resource functions of their various businesses. The corporate position should be to differentiate

the different personnel departments when necessary and to look for ways of integrating them whenever possible, so they can maintain some feeling of corporate affiliation.

Conclusion

The researchers believe that if personnel is to move into the realm of strategic planning -- both formulation and implementation -- several things must happen. First, the corporation has to design a philosophy that encompasses its attitudes and values, and relates them to its strategic plans. Next, companies must design systems that reflect their philosophy and maintain their strategy.

The objective of injecting human resource management into the strategic arena is not to enhance the status of traditional personnel resource staff. Instead, the objective is to alter the way managers set priorities and make decisions. And the final caveat is that the whole process must happen over time, else the radical change aggravate rather than help potential problems.

Bibliography

Fombrun, Charles, Noel Tichy, Kirby Warren and Mary Anne Devanna, "Strategic Planning and Human Resource Management: At Rainbow's End," published by the Strategy Research Center, Columbia University, August, 1981.

Tichy, Noel, Charles Fombrun and Mary Anne Devanna, "Strategic Human Resource Management," Center for Research in Career Development, Columbia University, September, 1981.

RESULTS OF STUDY OF HUMAN RESOURCES MANAGEMENT ISSUES IN STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION

by
Mary Anne Devanna
Charles Fombrun
Noel Tichy
E. Kirby Warren

INTRODUCTION

A survey was conducted to ascertain how the heads of strategic planning and human resource management viewed the role of human resource management in strategy formulation and strategy implementation in their firms.

The survey was mailed to 417 executives in 224 companies. Responses were received from 252 executives, representing 168 companies. Table 1 presents a detailed breadkown of the response rates by industry type.

REPORTING OF RESULTS

This report provides an overall summary of responses. Because there were no statistically significant differences between the strategic planning executives and the human resource management executives on any question, both responses are included together in this report.

Table 1

RESPONDENTS TO SURVEY

INDUSTRY TYPE	No. Respondents		No. Companies	
	Strategic Planning Executives	Human Resource Executives	Responding	Sent Question-naires
Aerospace	4	2	5	5
Appliances	1	1	2	3
Automotive	2	1	2	5
Auto Parts & Equip.	2	2	3	5
Building Materials	3	3	4	5
Chemical	7	6	7	8
Conglomerates	1	1	1	3
Containers	1	2	3	3
Commercial Banking	21	17	24	27
Diversified Financial	2	1	2	5
Drugs	3	4	5	7
Electronics	1	1	1	5
Electrical	2	3	3	4
Food & Beverage	7	11	12	14
Fuel	8	15	17	18
Information Processing	9	7	9	10
Instruments	0	0	0	2
Machinery	4	5	5	6
Metals & Mining	3	2	3	4
Miscellaneous Manufacturing	3	1	4	9
Leisure Time	2	3	3	4
Life Insurance	12	9	13	17
Personnel & Home Care	1	2	2	6
Retailers	2	4	5	10
Paper	4	4	5	5
Steel	3	2	3	3
Semiconductors	3	3	4	5
Tire & Rubber	1	3	3	3
Transportation	4	7	9	11
Utilities	6	8	9	12
Total	122	130	168	224

I. GENERAL QUESTIONS REGARDING STRATEGIC PLANNING AND STRATEGY IMPLEMENTATION IN EACH COMPANY.

This section reports the results of three questions designed to assess how the respondents feel in general about strategic planning in their companies. The three bar graphs on the following pages present a summary of these responses. The findings indicate:

EXTENT OF FORMAL STRATEGIC PLANNING

It is clear that most companies in the sample have relatively formal strategic planning activities.

HOW LONG HAVE THERE BEEN FORMAL STRATEGIC PLANNING ACTIVITIES?

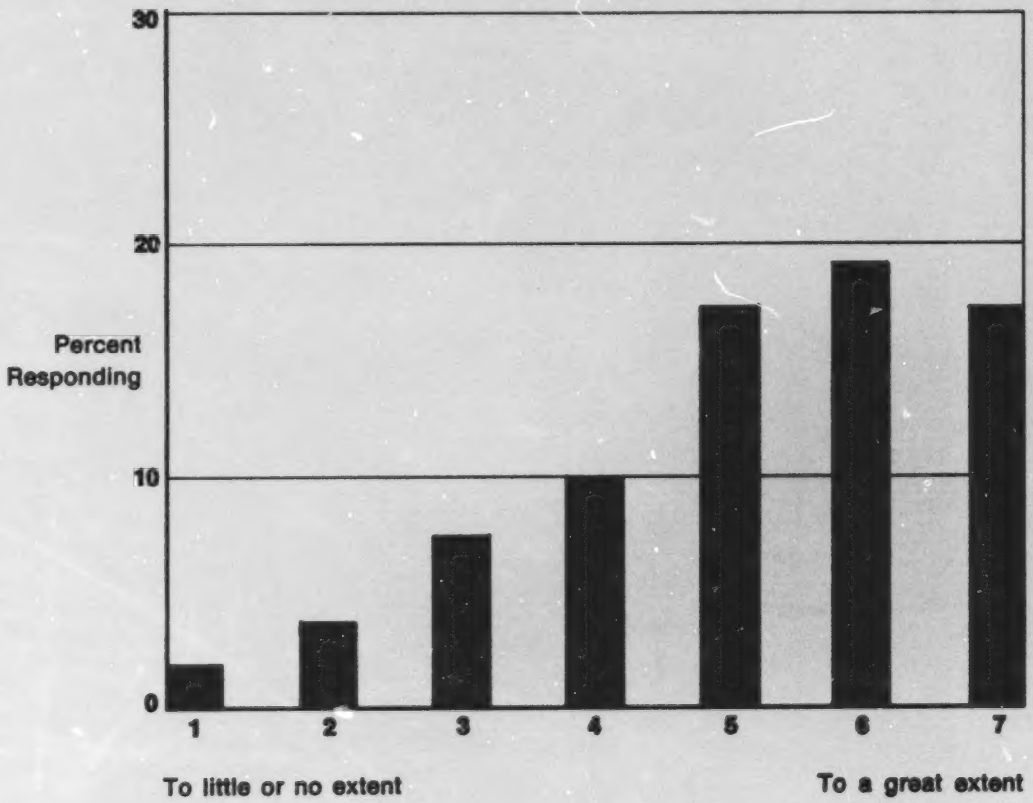
The sample splits on this item with almost forty percent having four years or less experience with formal strategic planning.

HOW EFFECTIVE IS STRATEGIC PLANNING?

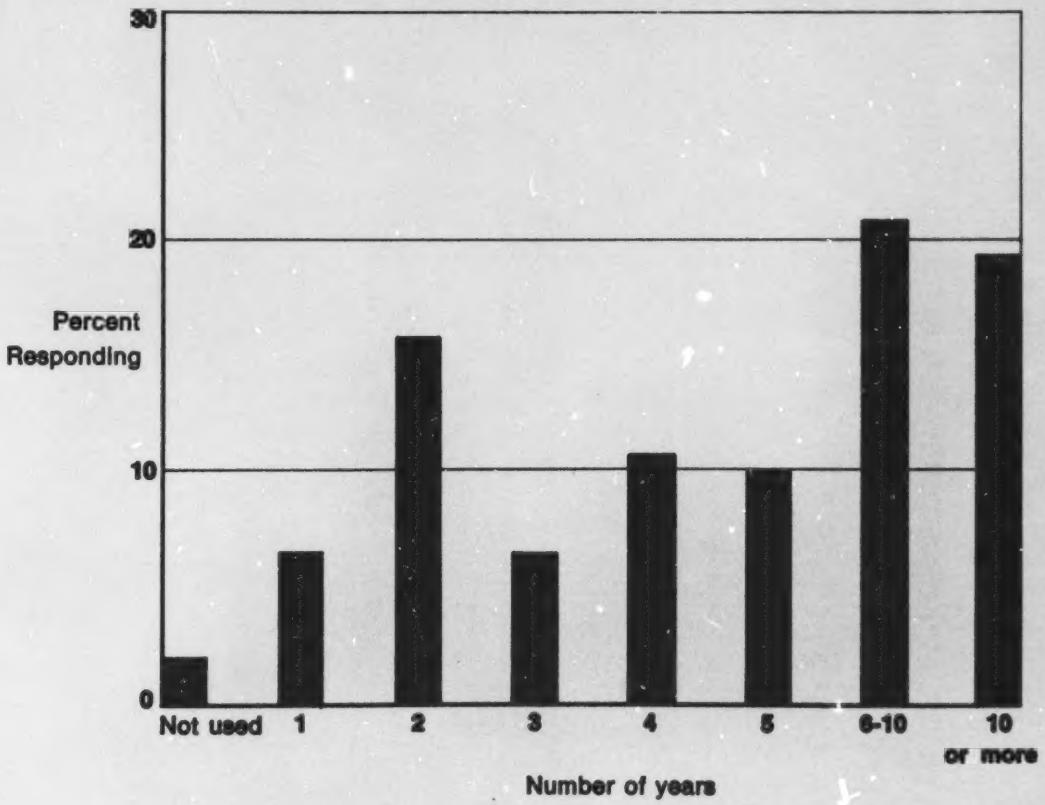
The results on this item reflect close to a normal distribution with over thirty percent in the middle, "moderately effective."

COMMENTS: It appears that most everyone is making a formal effort in strategic planning but that the impact on company performance is quite varied. Human resource management is a late comer to the strategy arena and will require time to find an appropriate role.

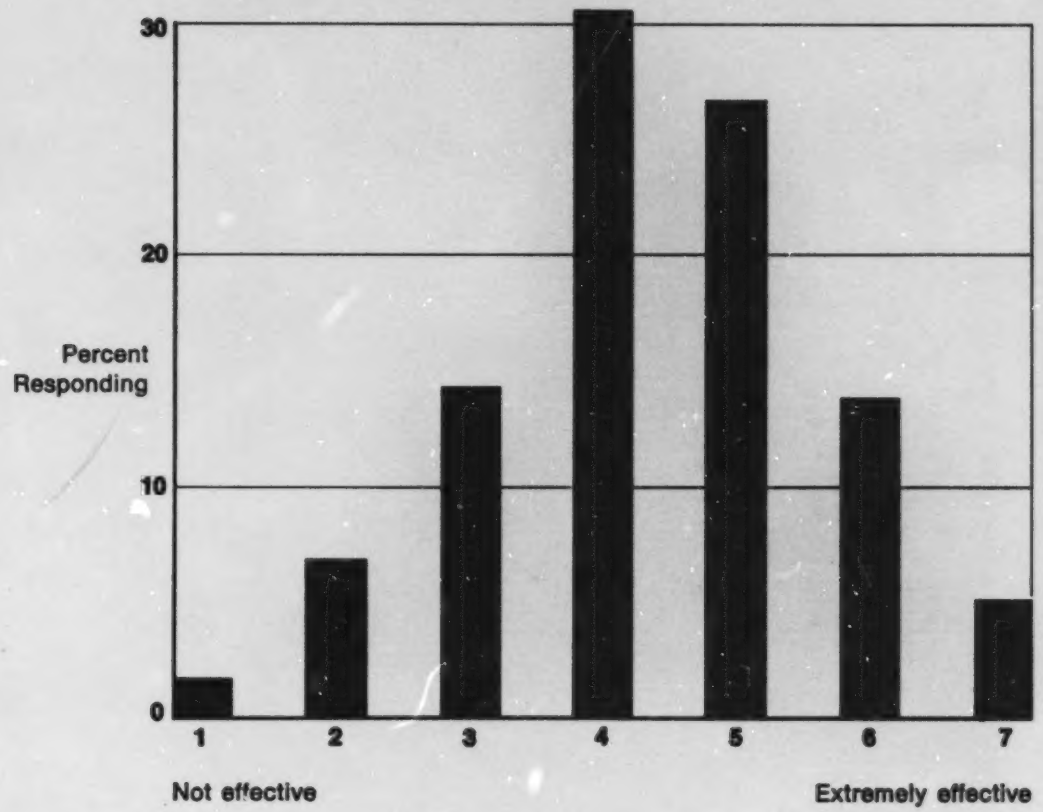
TO WHAT EXTENT ARE THERE FORMAL STRATEGIC PLANNING ACTIVITIES IN USE AT YOUR COMPANY?



IF THERE ARE FORMAL STRATEGIC PLANNING ACTIVITIES IN USE, HOW LONG HAVE THEY BEEN USED AT YOUR COMPANY?



HOW EFFECTIVE, IN TERMS OF CONTRIBUTING TO THE OVERALL PERFORMANCE OF YOUR COMPANY, WOULD YOU RATE THE STRATEGIC PLANNING PROCESS AT YOUR COMPANY?



II. ROLE OF HUMAN RESOURCE MANAGEMENT IN THE STRATEGY FORMULATION PHASE

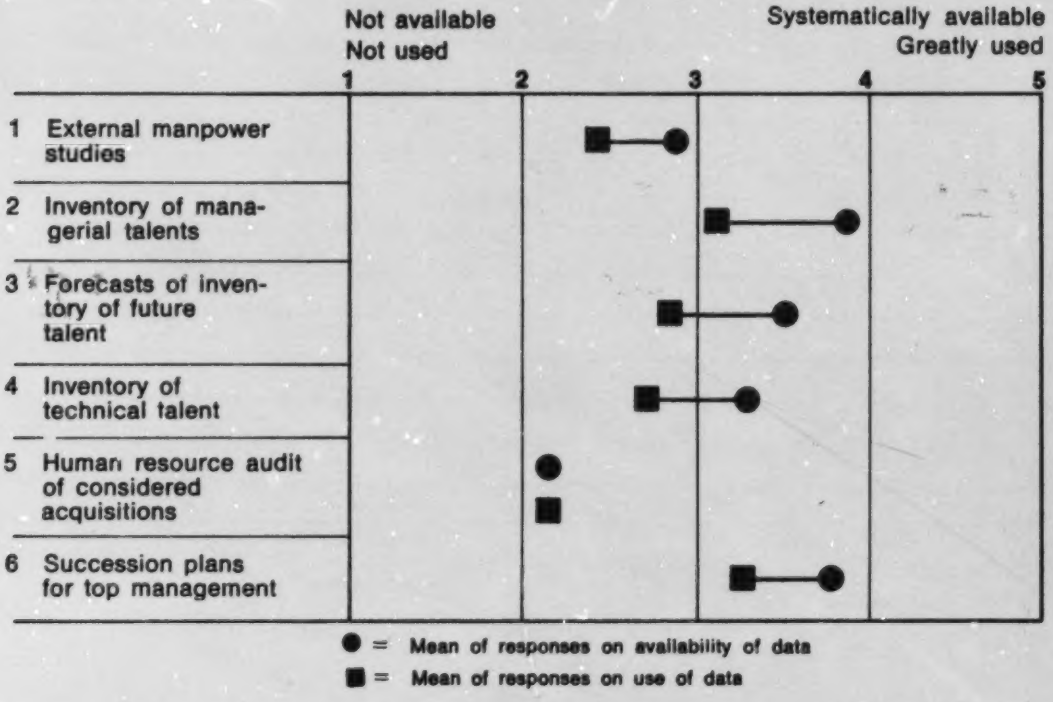
This section reports on how human resource considerations play a role in strategy formulation. A number of human resource data bases were evaluated by each respondent in terms of 1) whether or not it was systematically available, and 2) the extent to which it influenced strategy formulation. The findings can be summarized in the following terms:

HUMAN RESOURCE DATA IS MORE SYSTEMATICALLY AVAILABLE THAN USED IN STRATEGY FORMULATION

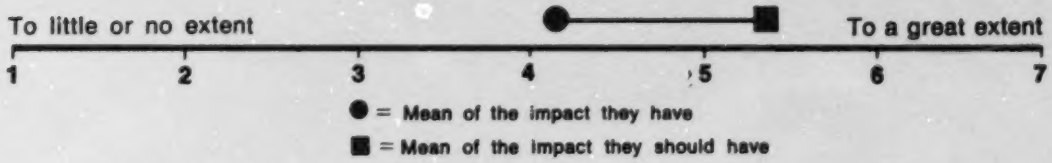
The diagram on the following page clearly shows that respondents perceive data as being available in more systematic form than is being used for formulating strategy. The one exception is human resource data on acquisitions which is not very systematic nor reported as being used much in strategy formulation.

COMMENTS: It appears that organizations have more than enough systematic human resource data for strategy formulation. However, when we look at the question at the bottom of the following page which asks "how much should human resource considerations impact strategy formulation," We might conclude that more use of human resource data should take place. If this happens then the data bases would have to be improved as well.

AVAILABILITY AND USE OF HUMAN RESOURCE DATA



IMPACT OF HUMAN RESOURCE CONSIDERATIONS ON STRATEGY FORMULATION



III. ROLE OF HUMAN RESOURCE MANAGEMENT IN STRATEGY IMPLEMENTATION

This section reports on questions which were asked of respondents concerning the extent to which various human resource activities were used to help in the implementation of strategy. The respondents indicated both how it was now in their company and how they feel it should be. The major findings are:

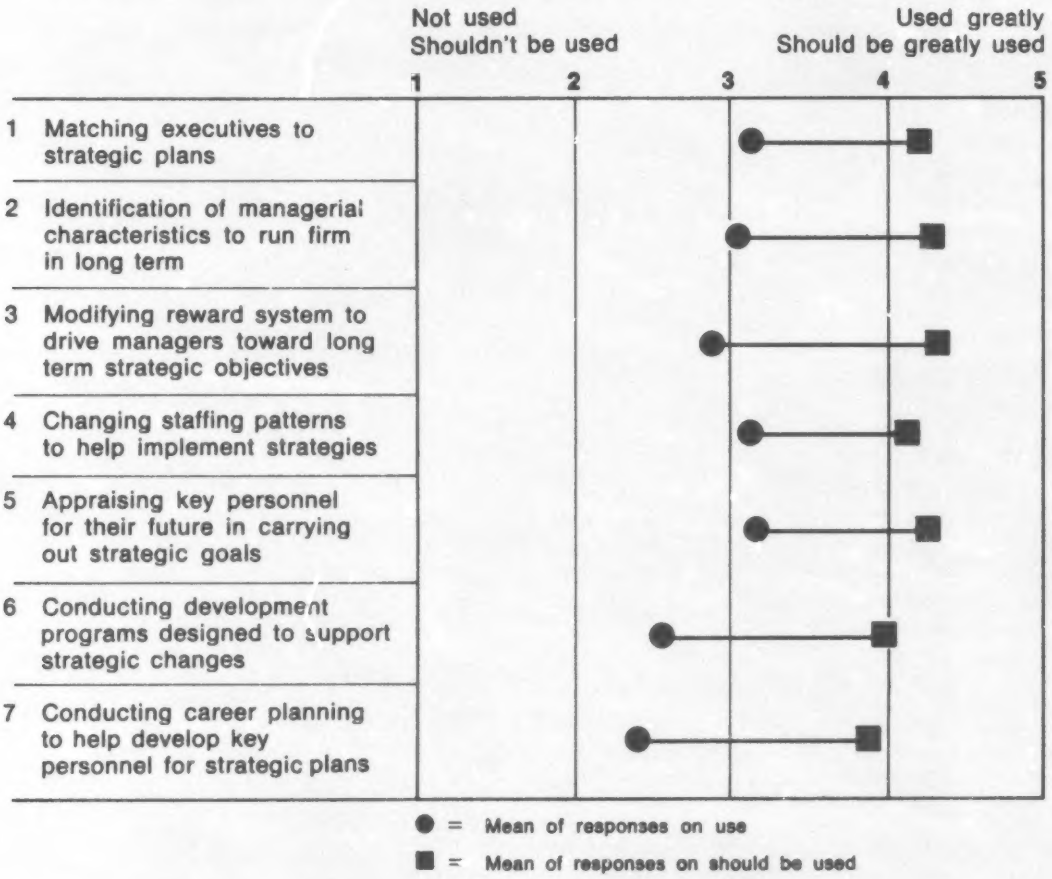
HUMAN RESOURCE ACTIVITIES SHOULD BE USED MORE FOR STRATEGY IMPLMENTATION

The diagram on the following page shows that respondents clearly feel that human resource activities should play a much bigger role in the implementation of strategies.

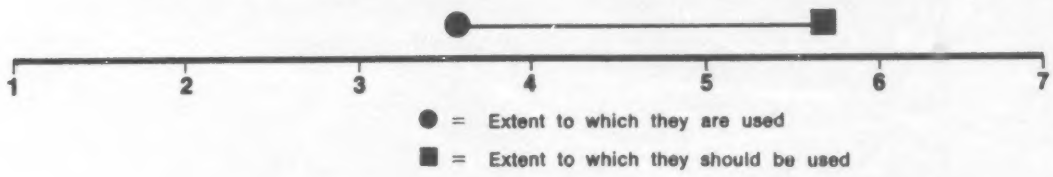
COMMENTS:

It is our view that the 1980's are a time when companies will be placing greater emphasis on strategy implemention. This emphasis will place increasing importance on the systematic use of human resource activities as an important part of implementation.

THE EXTENT TO WHICH HUMAN RESOURCE ACTIVITIES ARE USED IN STRATEGY IMPLEMENTATION AND THE EXTENT TO WHICH THEY SHOULD BE USED


Not used
Shouldn't be used
Used greatly
Should be greatly used
1
2
3
4
5
1 Matching executives to strategic plans
2 Identification of managerial characteristics to run firm in long term
3 Modifying reward system to drive managers toward long term strategic objectives
4 Changing staffing patterns to help implement strategies
5 Appraising key personnel for their future in carrying out strategic goals
6 Conducting development programs designed to support strategic changes
7 Conducting career planning to help develop key personnel for strategic plans
● = Mean of responses on use
■ = Mean of responses on should be used

EXTENT TO WHICH HUMAN RESOURCE ACTIVITIES ARE USED AS STRATEGY IMPLEMENTATION TOOLS AND THE EXTENT TO WHICH THEY SHOULD BE USED



MANAGING THE MIDDLE:

IMPLICATIONS FOR HUMAN RESOURCES MANAGERS

Mary Anne Devanna

E. Kirby Warren

There is growing speculation that the ranks of middle management will continue to be whittled down over the next decade. This belief persists despite the fact that the Bureau of Labor Statistics shows that there were nine percent more managers and administrators in the United States at the end of 1982 than there were at the beginning of 1980. This trend ran counter to the employment patterns in the rest of the labor force which experienced a one percent decline in overall employment and a twelve percent reduction in the blue collar ranks. Part of the problem may well be one of definition -- what do we mean when we talk about "middle management" jobs? Increasingly, "middle managers" do not manage people. Instead, they manage information, they plan or they coordinate. It is a group that is more readily identified homogeneity along with the level of competition are an issue for human resource managers.

While the number of jobs has been increasing in an absolute sense, the competition for those jobs has been increasing at an even greater rate. In the last twenty-five years, the number of MBA degrees granted each year in the United States increased from 4,653 in 1959-60 to an estimated 61,000 in 1981-82. This "elite" cadre of applicants for managerial jobs continues to be supplemented by hires from more traditional groups such as those completing their undergraduate degrees. The result has been a greatly increased level of competition in the middle management ranks as qualified people vie for promotional opportunities.

These demographic trends are coupled with environmental forces such as rapidly changing technological advances that are providing line managers with direct access to information and analysis of that data which currently requires sizeable numbers to staff to collect and interpret. These events will have an impact on:

1. the structure of managerial jobs and managerial career progression;

2. the numbers of managerial jobs; and

3. the relationahip between managerial and technical/ professional jobs.

The Structure of Managerial Jobs and Managerial Career Progression

There is little doubt that the rapid changes in computer technology, particularly the dissemination of systems that are user friendly, small and inexpensive, will have a significant impact on the way in which decision making is carried out in organizations. The effect of this technological revolution could reduce the numbers of people working in certain staff support positions and could reduce the hierarchy of middle management positions developed to supervise them. This view is based on the assumption that line management will now have direct access to the information and the analytic tools they need for decision making. Those most supportive of this technological innovation point out that not only will organizations be able to eliminate many costly middle management jobs but they will also be able to make better decisions. Their reasoning is as follows: In the process of analyzing data and preparing reports for decision makers, some middle managers were ever mindful of the fate that befell the bearer of bad news. The result of their concern are reports in which the data have been massaged to the point that its true import was lost, as a series of hopeful assumptions or overly optimistic scenarios are used to dull the early warning present in those data. With a computer terminal present on every desk, decision makers will now have access to the data without the threat of distortion which exists when staff groups are asked to analyze the data and present it to management for decisions.

There is something familiar about the arrangement in which the line manager calls up the data and makes decisions without the intervention of a staff group. It is distinctly reminiscent of the way in which decision making took place in organizations three decades ago. The reason for the formation of staff support groups was not only to gather and interpret the data needed for decision making -- it was also to insure that there would be sufficient time for reflection when the data are being analyzed. It is recognized that managers tend to neglect activities such as planning and evaluation of policies and programs when confronted with day to day operational pressures. The presence of the computer will not change this fact of life.

Many organizations have solved one problem -- insuring that time and energy are devoted to the analysis of data -- but they have failed to properly integrate the flow of information into the decision making process. Making the data immediately available to the decision maker solves the integration problem but it does not solve the time management

problem. Organizations will have to decide how they wish to address this issue in the next decade. The basic choices are:

1. Managers must be chosen who have the ability to run the business on a day to day basis and still plan for the future. The appraisal, reward and development systems in the organization must be designed to support this behavior. Texas Instruments has designed their appraisal and reward systems to foster this objective.

2. Strong support staff groups will continue to analyze data for line management decisions but the processes by which the integration of the data into the decision making process takes place must receive careful scrutiny to insure that the data are not presented in a distorted manner. Again, the selection of both the staff support groups and the line managers must be consistent with the behavioral criteria needed for them to perform effectively and the appraisal, reward and development systems in the organization must be designed to support this behavior. IBM, with their contention management process, uses this approach to decision making.

Thus, our research indicates that the result of these technical changes will be to reduce the numbers of managers supervising these staff support groups. The issue that remains to be addressed is how these changes will affect the structure of middle management jobs when we look at the mix between line management and support staff groups. This issue will hinge on the way in which organizations choose to balance the costs and problems of integrating data into the decision making process with the costs and problems inherent in having the same person manage the business on a day-to-day basis while they also plan for the future.

The typical managerial career progression in today's organization involves movement from first line supervisor through the middle management ranks and on to top management. Among the skills that are often stressed in this progression are "people" or interpersonal skills. Discussion centered on the effects of the technological revolution on skill requirements tend to agree that these skills will be much less important in the middle management ranks in the future. A computer does not have to be motivated to get the data prepared on time and rarely becomes counterdependent if the manager did not smile and say thank you. The need for good interpersonal skills at the first line supervisory level and at the level of top management, however, remains strong. Thus, rather than seeing managerial career progression as a continuous flow in which interpersonal skills become ever more critical, we are

confronted with a discontinuous progression in which the people who make the best first line supervisors will not necessarily make the best middle managers and the best middle managers will not necessarily make the best top level managers.

This issue has implications for human resource managers in the way in which succession issues are handled in the organization. The first issue involves the ability of managers to obtain the necessary skills to pass from one level of management to another through job experiences. To the extent that the skills needed at the different levels are not part of a continuum, it will be necessary to supplement job experiences with more formal development opportunities. The second issue is to find ways to evaluate the potential of managers at different levels of the organization to perform skills that they are not currently demonstrating. How often have we heard a manager say,"When I promoted my best sales person,I lost a great sales person and got a terrible manager." We are well aware that the skills of managing differ from the skills of doing. This is clearest in the first jump from professional doer to manager. Now the jumps will continue through management as the gap between what is required for first level supervisors will not necessarily translate into the requirements of a middle management position. This problem will demand particular attention in organizations that rely on job posting for job transfers and promotions since the skills involved in "selling" oneself usually are good interpersonal skills and yet the job may rely on the ability to perform well in a more technical arena. The best technical people may well be at a disadvantage in such a system and will become demotivated or leave when they see those they perceive to be less qualified reap the organizational rewards.

Thus, the structure of managerial jobs and the nature of the career progression through those jobs will pose new and urgent challenges to human resource managers. The changing structure of middle management jobs will require better specification of performance criteria to provide a template against which to speculate on an individual's potential (not proven performance) to carry out a new job. In addition, the discontinuous nature of the career progression will make it more important to supplement on the job training with formal development programs and to increase the quality and quantity of developmental education vs. technical training.

Succession Planning for Top Management Jobs

Let's take a look at the implication these changes in middle management ranks have for staffing top management slots. Many of the poeple hired to supervise the gathering and collating of data were over-qualified for the role. Yet they continued to be hired in large numbers. Most organizations did not pay people middle management salaries to supervise sophisticated clerical tasks. The middle management ranks formed the pool from which the top management positions would be filled. Since management remains unsatisfied with its ability to spot top management potential early in the career cycle, it tends to keep as many "potential" top managers around as it can afford. Most organizations operate with the implicit succession philosophy that "the cream will rise to the top."

The technical revolution is likely to change if not eliminate many of the positions that these "potential" top management candidates fill and increased competitive pressures make it more difficult to justify positions created primarily for training and development needs.

The challenge to human resource managers will be to find ways to improve assessment of potential using subjective data; and, to insure that appraisal processes for advancement in the middle management ranks are perceived to be fair and equitable especially in terms of promotion policies.

The Relationship between Managerial and Technical/Professional Jobs

Perhaps the most significant change in the middle management ranks brought about by the technological revolution is the increase in the number of certain technical/professional employees relative to "managers." Engineers and other professional groups working in organizations have been felt to present a special set of problems to managers. With the increase in their numbers, as areas such as data processing and program design grow in organizations, it becomes important for human resource managers to gain a better understanding of what these people value in the workplace. Because of the growing interest in this class of employees, the Columbia University Center for Career Research conducted a study of computer professionals to see how they compared to general managers in large organizations. The results are thought provoking.

Figure 1 shows the percentages of computer professionals who rated each of the ten factors as "very important" in their decision to work for their current organization. The motivating factors are ranked in order of their attributed

Figure 1

Percent Rating Factor as "Very Important" in Decision to Take First Job with Current Employer

COMPUTER		GENERAL MANAGEMENT	
Learn new skills	81%	Responsibility	83%
Use more skills	74	Use more skills	76
		Advancement	73
Advancement	68		
Responsibility	51	Learn new skills	63
Salary	58	Salary	53
		Autonomy	51
Job security	41		
Geographic location	39	Job title	28
		Geographic location	27
Better hours	32	Job security	23
Autonomy	30		
		Better hours	6
Job title	10		

importance to that decision. Overall, the data suggest that the groups sampled generally were more motivated by the intrinsic challenge they saw in their work than by external factors related to work conditions. More than 70 percent of the computer professionals said that "the opportunity to learn new skills" and "the opportunity to use more of their skills" were "very important" in their decision to take a computer related job with their current employer. Among the general managers, more than 70 percent said that "responsibility," "the opportunity to use more of their skills" and "opportunity for advancement" were "very important" in their decision to take a job with their current employer.

There are some noteworthy variations in the ratings given by the computer professionals and the general managers.

An overwhelming proportion of the general managers (83%), as compared to only 51 percent of the computer professionals, rated "responsibility" as "very important" in their decision to take their first managerial job with their current employer. This factor would be expected to have salience among the general managers given the nature of their work. On the other hand, the computer professionals are more likely than the general managers to report that the "opportunity to learn new skills" was "very important" in their decision (81% vs. 63%), and they were more likely to rate "job security" and "better working conditions" as "very important." It is interesting that only among one subgroup -- the general managers from the non-computer companies -- was "salary" rated as "very important" in their decision to take their current job by a substantial majority (70%). This group was also much more likely than all others to rate "job title" as "very important," suggesting that these general managers are more interested in classic organizational rewards than are the other groups sampled.

The data collected from these computer professionals show the same trends as data collected by Tichy, Fombrun and Devanna from engineers working in an engineering consulting firm. It would appear that professional and technical employees join companies for different reasons than people interested in general management careers. These groups also tend to value rewards that they receive from their work differently. Professional and technical populations placed more value on the opportunity to enhance their skills while general managers focused more on opportunity for advancement. Professional groups looked for opportunities to develop their careers without necessarily moving up in the organization.

What Are the Implications of these Differences for Human Resource Management?

The study focused our attention on the differences between professional and technical groups and general managers because the balance in numbers between the two groups is shifting in many organizations. Much of the talk about "new values" in the work force is simply a recognition of the increase in numbers of people classified as technical or professional in the work force. The values are not new -- they have always been associated with professionals -- but the pressure to deal with this group has increased dramatically.

For years, many organizations have been geared to managing "general managers." The rewards which are made salient are salary and upward mobility. Organizations forced to deal with technical or professional populations usually

attempted to manage them within the existing general management culture or by setting up parallel systems known as dual ladders. A study conducted by Laurie Roth shows that most of these systems are not operative, and the ones that are in use experience limited success. The growing numbers of well-educated professionals will place new pressure on organizations to find more innovative ways to manage these populations. At the very least, there should be a recognition that these employees may soon make up the majority in the "middle management" ranks of the organization. Those charged with managing them will at least want to ask if a culture geared to the aspirations of a minority is the most effective way to deal with these issues.

In organizations faced with constrained growth, a shift in the definition of success from that espoused by the general managers to that held by the technical professional population could also alleviate many of the problems that organizations face in motivating the managers. If this population is socialized to consider learning opportunities as more valuable rewards than upward mobility, organizations would be able to reward more good performers than is currently possible.

The challenge for human resource managers is to evaluate the current reward structure in the organization to see if the fit between what the employees value and what the organization offers for good performance is a good one.

The Emphasis on Development

A recent survey conducted under the auspices of the Conference Board asked CEOs what they believed would be the major issues facing them in the area of human resource management over the next five years. The CEOs said they believed that the types of businesses that would be included under their corporate umbrella would be more diverse than they are right now. They stressed the need to develop their current management team to manage this greater range of businesses effectively. They also wanted to make sure that appropriate adjustments would be made in the way in which their successors were developed. The process through which much of this would be accomplished is by devoting sufficient time and attention rather than simply lip service to a succession plan backed by a strong development program.

To underline their sense of urgency, the CEOs expressed their concern that because we live in turbulent times, their top management teams will need to learn "many important new plays in a very short period of time...indeed, some teams may need to master a totally different ball game overnight."

As technology evolves at an increasing rate, and as the professional/technical work force increases in numbers, organizations will find it necessary to make greater investments in training and development at all levels of the organization. The CEOs in the Conference Board study listed a number of developmental objectives among the key challenges they will face in the next three to five years. Ranked number one on their list, with more than 80 percent of the executives sampled saying it would be important, was developing a strategic business perspective within the top management group. When asked to describe the strengths and weaknesses of their current developmental programs, 94 percent of the CEOs said they currently did a good job of developing general managers for their existing businesses; 66 percent said functional specialists were well trained; only 31 percent felt there was adequate development done to develop business strategists; and a mere 13 percent listed entrepreneurs. Obviously, human resource managers will need to address this heightened demand for development in three areas:

1. The need to retrain existing staff to meet the challenges of the new technological environment;

2. The need to develop in top management teams and their successors the skills necessary to deal with a more complex organizational reality; and

3. The need to recognize the importance of development as an organizational reward for a growing professional/technical population.

Conclusion

Enormous pressures are building up in organizations as a result of the recent recession and the technological revolution that will have a profound effect on the way in which human resources are managed. Effective organizations will no longer be able to rely on a service delivery mentality on the part of their human resource staff to get them through these times. Many of the decisions that need to be made can only be made with good information about the skills and limitations of the people in the organization. Many organizations need to look at the prevailing value system in the organization and ask if it is appropriate for the majority of the employee population.

While all human resource systems -- selection, appraisal, rewards and development -- will be challenged, the heaviest burden will fall on the development function. At one time, growth took care of most of the development needs

in organizations but that is no longer true even in the sectors of the economy experiencing the most growth. The reason for the paradox is that the sectors of the economy that are growing most rapidly and the functions within organizations that are experiencing the most growth are areas which are technologically sophisticated. The technology is also evolving rapidly. Thus, growth alone will not take care of developmental needs and an investment will need to be made in formal developmental programs for this group as well as for those who face constrained opportunity structures that limit experience based development opportunities.

The organizations that emerge from the 1980s in the strongest positions may well be the organizations that have successfully managed the effects of the technological revolution on their human resources.

References

Devanna, M.A., Fombrun, C.F., Tichy, N., Warren, E.K., A Study of Human Resource Practices in Strategy Formulation and Implementation, Center for Research in Career Development, Columbia University, New York, New York, 1981.

Roth, L., The Dual Ladder Approach to Career Advancement: A Critical Review, Center for Research in Career Development, Columbia University, New York, New York, 1982.

Shaeffer, R.G., Top-Management Staffing Challenges: CEOs Describe Their Needs, The Conference Board, Research Bulletin No. 121, New York, New York, 1982.

Warren, L., The Role of Human Resources in Strategic Planning, The Career Development Bulletin, 1982.